# ALTERNATIVE SERVICE DELIVERY

# HEARING
BEFORE THE
SUBCOMMITTEE ON
INTERGOVERNMENTAL RELATIONS
OF THE
COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
NINETY-SEVENTH CONGRESS
FIRST SESSION

## PART 2

## HOUSING

OCTOBER 19, 1981

Printed for the use of the Committee on Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE
11-256 O WASHINGTON : 1982

S401-15

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# ALTERNATIVE SERVICE DELIVERY

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MONDAY, OCTOBER 19, 1981

U.S. SENATE,
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
*Washington, D.C.*

The subcommittee met, at 2:05 p.m., in room 3302, Dirksen Senate Office Building, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senator Durenberger.

## OPENING STATEMENT OF SENATOR DURENBERGER

Senator DURENBERGER. The hearing will come to order.

I think all of us here today are aware of the critical shortage of affordable housing for low- and moderate-income people, as well as the problems of those vulnerable individuals and groups with special shelter needs. I think we are also aware that anyone trying to address those concerns must do so in light of the need to reduce inflation and high interest rates by restraining the growth of the Federal budget.

Shelter is among the most basic of all human needs. At various times, our government has rightly affirmed its commitment to meeting that need. For most Americans a growing economy with reasonable interest rates and employment opportunities is the answer to obtaining affordable shelter. I think the actions of the President and the Congress in recent months have started to remove government as a major obstacle to this goal. Yet we cannot, and we will not, abandon or delay our efforts to help the vulnerable among our population to obtain decent housing.

This hearing is one of a series of forums for exploring alternative means of supplying essential public services. This one is on assisted housing. The hearing is intended to expose just a few of the many, creative and innovative ways in which shelter is being provided to those in need through alternatives. We cannot possibly explore and review every exciting effort underway in this field. We had to forego hearing about many worthwhile projects, including several in my own home State of Minnesota. I am familiar with an internally subsidized co-op project started by the Wilder Foundation. I know that General Mills and Honeywell have undertaken the renovation of declining downtown neighborhoods with some success. The list is endless.

Out in the real world there is a percolation of ideas on how to shelter people. Some of these are the direct result of successful local and Federal Government programs, and some of them are due to government's inability to respond to the different needs of different people in different communities.

Today's witnesses have been asked to talk about alternatives for meeting the shelter needs of low-income and other vulnerable groups. They have also been asked to outline what impact these alternatives would have on the overall stock of housing available in their immediate communities. Third, they have been asked to identify existing barriers and possible incentives to the working and development of alternatives.

Let me add that I mean alternatives in the broadest possible sense. We have a tremendous range of human and financial resources in this country in the private sector and in the not-for-profit sector, as well as in all levels of government. We owe it to those who cannot fully help themselves to bring these resources into a working partnership. The more we allow diverse programs to grow and flourish, the greater the range of possibilities that will be available to those who need shelter.

Our timing is most appropriate since the Presidential Commission on Housing is meeting today. It will soon formalize its recommendations to the President. I know that many members of the Commission favor more direct aid to people in place of continued indirect assistance in the form of various construction incentives. I know at least some of our witnesses are going to speak to that issue in a variety of ways.

Our timing is most appropriate in a broader sense as well. Our society is undergoing an intense self-analysis of the role that we want government and various other institutions to play in our lives.

Our commitment to provide shelter remains deep, but we are asking ourselves how we can do that in a better way. Those of us in the public sector need to match the creativity and innovation of the people at the grassroots, to allow them to fully develop as I know they can. We must seek to use every public and private dollar, as well as every human resource, to maximize our opportunities to provide shelter for the vulnerable among us. I look forward with enthusiasm to having the thoughts of our witnesses about how to proceed toward this goal.

Our first witness is Dr. Steve Savas, Assistant Secretary for Policy Development and Research, U.S. Department of Housing and Urban Development. Dr. Savas was a witness at our July forum on alternative service delivery. He is a well-known expert on this issue. As a matter of fact, I understand, he is now about to come out with his second book on the subject of privatization and alternative service delivery. I have invited Dr. Savas to talk about possible changes in the Federal housing policies and the potential impact these changes may have on community options in housing.

Dr. Savas?

## TESTIMONY OF E. S. SAVAS, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. Savas. Thank you very much, Senator Durenberger.

I appreciate the opportunity to participate in this forum on "alternatives for meeting public service in housing." As a participant in an earlier forum on alternative service delivery before this subcommittee. I recognize the great value of this hearing. Senator Durenberger, the subcommittee and its staff should be congratulated for bringing this important issue to the public's attention. I am offering my comments with the hope that they will improve the dialog on this subject.

We have truly reached a watershed in the history of housing programs. The importance of considering alternative modes of delivery is greater than it has ever been before. The opportunity to see promising, cost-effective alternatives implemented as a result of this period of reexamination is tantalizing. I am sure your hearing this afternoon will contribute to the national debate going on around us.

The Nation's housing programs for low- and moderate-income households have developed over a 40-year period. They have evolved as consecutive administrations and Congresses have responded to a series of needs perceived to warrant public sector intervention. These perceived needs included providing poor households with decent and affordable housing, assuring new housing production for a growing population, and continuing the adequate maintenance of what is estimated to be a $3 trillion investment in the existing stock.

With the single notable exception of the section 8 existing program, which I will discuss in a moment, the assisted programs have tried to achieve all of these goals through a single vehicle: the construction, or substantial rehabilitation, of housing for occupancy by the poor. Public housing, the multifamily FHA subsidized programs, and section 8 new construction are all of this general type, although they differ in the balance between public and private sector in production, ownership and management. In some instances, such programs have been successful: They have produced decent housing in economically distressed areas where no new housing had been built; they have opened opportunities for the poor, especially minorities, to live in racially and economically integrated communities; and they have often served as a symbol of public commitment to rebuild in our cities.

But the social and budgetary price tag has been high. This is particularly true in new construction. The unfunded obligation in budgetary authority for all HUD's housing programs now totals $250 billion—a quarter of a trillion dollars. A portion of that housing is now socially and physically far from the decent, safe and sanitary housing it was intended to be, and even much of that which remains decent housing provides little choice of location for its tenants.

It is my personal view that programs of this type have two major flaws: First, they take an expensive and circuitous route to solve a problem which can be solved far more directly; and, second, they do not rely sufficiently on private sector market relationships to fulfill their objectives. In short, our programs have subsidized the producers, or builders, of so-called low-cost housing at a very high price instead of the consumers, the low-income tenants themselves.

I would like to explain these statements by describing the Department's experience with two housing programs which I believe offer alternatives meriting serious attention. Both fall into the general category of "vouchers" in the sense that they involve a cash subsidy to lower income households for use in renting private rental housing not otherwise associated with HUD-assisted programs.

The two programs I refer to are the Experimental Housing Allowance Program [EHAP] and the section 8 existing program now administered by HUD. The concept of vouchers has been endorsed by the President's Commission on Housing, which has indicated its preference for "Consumer Housing Assistance Grants" as the primary Federal program for housing the poor.

A voucher approach to housing is the most direct route to the primary housing problem faced by the poor: not enough money. In 1977, for example, almost two-thirds of all very low-income renters—that is, those with incomes below 50 percent of median—living in adequate housing, were paying more than 30 percent of their income for rent, 40 percent of them paid more than half. A voucher program addresses the problem by providing a cash subsidy either directly to the tenant or to the landlord on the tenant's behalf as long as the unit that the tenant is living in passes a minimum set of physical standards. It utilizes the existing stock of rental housing. The subsidy is typically the difference between actual rent or some other payment standard and the family contribution, usually calculated as a percentage of a tenant's income.

We know a great deal about how households operate in a housing market with voucher-type assistance, both through EHAP and the Department's evaluations of the section 8 existing program, which is modeled on EHAP with certain modifications. The basic conclusion from this experience is that vouchers can be an effective and efficient method of delivering housing assistance, at a cost of less than 60 percent of programs involving construction of housing for the poor. But, most importantly, it can reach a much greater number of those eligible to be served.

Let me address, first, some of the features of a voucher approach which make it attractive. Then I will discuss some of the concerns which are sometimes raised when vouchers are proposed.

A voucher-type program allows lower income households to function in the housing market like other households. Under EHAP, households could choose any unit which met the minimum housing requirements, but the subsidy only covers units up to about the median rent in the community. Normal market relationships is encouraged with tenants negotiating rents with landlords while reaping the benefits of lower rents, or paying the extra cost of more expensive units if they choose better housing. This process virtually eliminates rent inflation through the program.

Administered with some form of housing quality standards monitored by a public housing authority or other agency, under both EHAP and section 8 existing, a voucher-type program has proven to be effective in inducing upgrading of marginally substandard units and in keeping them up to standard through routine inspections. More than half the units in which very low income households live would fail inspection for housing quality, but most can be brought up to standard with relatively minor repairs. Only about 10 percent of very low income households live in units needing major repairs, but such households have succeeded in this program in moving into standard units.

Routine reinspections were performed. In EHAP, about 30 percent of the units failed an annual reinspection, but 90 percent were repaired and stayed in the program. Thus, annual reinspections keep units from dropping out of the stock of standard housing.

Finally, despite concerns that certain kinds of families have difficulty in the private housing market, and may not be adequately served by a voucher-type program, this has not proven to be a major problem. Minorities, households with children, and single parents have been served in section 8 existing in proportions somewhat greater than their presence in the eligible population. Even in tight markets, tenants have generally been able to find acceptable units at a reasonable rent.

In spite of this promising experience, I should note that a number of concerns have been raised in connection with housing voucher programs. The administration has not yet reached any final conclusions as to whether, or to what extent, a voucher program should become the vehicle for helping low-income households obtain adequate shelter. Faced with the tremendous unfunded obligation associated with the current inventory of assisted housing, many are concerned that a voucher program not become an automatic entitlement program with the potential for runaway costs, adding to the budget deficits we are trying to correct. Again, a voucher program should not preempt a broader effort to rationalize the entire welfare system.

At the same time, the imposition of housing quality standards should not become an inappropriate intrusion into private or local choices of life style. These and other matters are being examined in depth within the administration and within the President's Housing Commission before any final proposals are made.

I would like now to turn to another housing program alternative which has received a great deal of attention in the last year: housing block grants. HUD is putting the finishing touches on a report to Congress concerning the issues raised by a housing block grant. We expect it to be released soon.

There are as many models of housing block grants as there are advocates and critics of the concept. Two issues are key, however. First, the design of a housing block grant influences greatly the kinds of programs which are likely to emerge. That fact makes it critical that some thought be given to what general kinds of programs are desirable, or at least acceptable. Second, notwithstanding the idea that design begets output, it is important to understand that the concept of housing block grants is fundamentally one of changing the focus of decisionmaking and administration. It is the basic theme of devolved decisionmaking—present now in the CDBG program, for example—rather than a more elusive goal of reducing the cost of assisted housing, which should have primary emphasis in a consideration of housing block grants.

Our examination of housing block grants identified at least three major conceptual types. The first, and the one most often thought of when block grants are mentioned, would be a comprehensive, long-term block grant which in effect gives recipient governments long-term spending authority to design programs with outlay streams going out for 20 or 30 years, much as the current construction programs do now. Any program currently operated by HUD—public housing, section 8 new construction, rehabilitation, section 8 existing—could be replicated at the State or local level.

Such a program design is, at first glance, very attractive to those impatient with the rigidity of Federal program administration, but it raises a number of complex issues. To provide the flexibility intended by such a program, Congress would need to make budget authority available for an extended period of time, but relinquish the current control it has over the schedule for actual outlays or liquidation of that authority. Other critics of a comprehensive block grant believe that the complexity of having many local jurisdictions and States administering a multitude of programs would be far less desirable than the rigidity associated with Federal program administration.

A second general form of housing block grants could provide much shorter term authority, much as is provided now in the Community Development Block Grant program. Under CDBG, funds are appropriated annually, and are usually expended within 3 to 5 years. Such an arrangement in housing block grants would tend to limit the choices available to recipient governments, but would be responsive to the concern that commitments in housing by one Congress should not obligate those several decades later.

Finally, the HUD report to Congress examines the potential of a single-purpose housing block grant with short-term budget authority as in CDBG. In this type of program, the eligible uses for the funds would be limited—for example, to rehabilitation or interest reduction on taxable bonds issued by the public agency—but the specific design and administration of the program would be the choice of the recipient government, not HUD. This would permit greater flexibility in administration, but would assure that certain general types of activity continued to be undertaken.

The Department is making no recommendations in its report to Congress, but is waiting for the recommendations of the President's Housing Commission.

Again, I appreciate the opportunity to discuss this issue with you today. The efforts of this subcommittee will help us to continue a further dialog between the administration and Congress. It should prove to be beneficial to both of us.

I will be happy to answer any questions you may have about vouchers, block grants, or any other options which may be of interest to you.

Thank you.

Senator DURENBERGER. Thank you very much, Steve. Could you share with the subcommittee some of the revolutionary philosophy that is running right now through the Department with regard to alternative delivery? What does the Department perceive as the appropriate Federal role in providing shelter in America?

Mr. SAVAS. I think that the combination of our experience with the very, very high cost of section 8 new construction and other construction programs in a time of fiscal austerity, such as this, has mandated that we look at far more productive approaches.

We find that new construction programs cost 82 to 89 percent more than the cost of providing equivalent, decent, safe, standard housing to poor families—82 to 89 percent more for construction than for a voucher program. That means that, for the same amount of money, you can house almost twice as many people as we are currently housing, or, alternatively, house approximately as many as we are housing today at approximately half the price.

When this fact is coupled with the fact that the Congress recently, and wisely I believe, insisted that we restrict housing assistance programs to those who are below 50 percent of area median income, many people raised a cry of consternation. They felt that this would serve as a ghettoization of the poor—construction of housing programs filled with only poor people without any economic integration—and that such housing often results in the destruction of neighborhoods.

Again, the virtue of a voucher program is that it gives freedom of choice to poor people, just as wealthier people, if you will, have freedom of choice in choosing housing. A person can take a voucher and not be encumbered as to any limit as to where he or she might live. Other than that person's assisted economic resources, a family could choose to spend even more than its voucher and scrimp and save, if it wanted to, in order to choose housing that that particular family feels is best for itself; best in terms of the long-term hopes and aspirations they have. In fact, the evidence of existing programs is that assisted households are dispersed throughout the community in these programs.

Hence, in summary, vouchers are an ideal method. At the same time, they are extremely cost effective and can encourage economic integration by facilitating freedom of choice for families.

These are some of the prime factors and reasons leading to our current thinking in the Department. A voucher program makes a great deal of sense. I believe they are the way to go, in the future, as our assisted housing programs.

Senator DURENBERGER. What I am basically getting at with my question is, are we dealing with short-term solutions that reflect the conditions in which we find ourselves? Or, are we dealing with some sense of permanency in terms of the role of the Federal Government?

There are several ways to look at it. As you were talking, you backgrounded it in terms of the economy. That is sort of a James Watt rationalization:

> I am cutting back money for national parks. It doesn't mean I want to get rid of national parks; it just means that we have to get ourselves through this tough economic time, but we really do see a national role.

I could compare it with the policy changes that we may go through in accessing the poor, the needy, and the retired to health care. Our thinking seems to be to say that, in addition to the cash income security programs, we recognize the consequences of the health care systems we have designed, the medicare and medicaid systems. But the way we have been doing it isn't any good.

We are going to turn them around and provide these persons with either a voucher or some other form of access to health care delivery. We see that as sort of a permanent commitment in the National Government. There are some in the administration who see it as potentially evolving to the States, but I think it is clearly seen as a governmental responsibility.

Before the creation of HUD—I don't know how many decades in time—it seems to me the governmental role in shelter was one of giving certain tax breaks which provided incentives for persons to borrow money. The money was provided very cheaply to persons who fell in a certain status like veterans and who qualified for a certain kind of shelter program. Now we have sort of moved into a whole area where, if it weren't for government, there just wouldn't be any shelter for a large part of our population.

My question to you—and I apologize for its length—is directed at whether or not we are going to just find a better way to do what we are already doing. In effect, do you see a possibility of working our way out of a subsidized governmental role in the system? Will vouchers be one of the easier ways to work our way out of the system if we ever wanted to do that?

Mr. SAVAS. My view on that is quite clear. I think that there will be a long-term role for the government in providing housing assistance for the very dependent poor. I think that the ideal mechanism for that is a voucher. It is the most efficient and effective way of doing that. It is a well-tested program, unlike so many programs which are sometimes conceived, in retrospect, rather casually. I think that this is a program that has had the benefit of $150 million worth of experimentation in one form and then received several years of direct experience in the operation of the section 8 existing program—which is a first approximation of the kind of voucher program that I have described here and which I am recommending.

So I do think that there is a long-term commitment in this direction. I think this is the long-term way to go. It is not just a short-term expedient. I think it is and will continue to be the most cost-efficient way of proceeding.

Senator DURENBERGER. Then it does not have for its purpose the construction of shelters? Clearly, just providing vouchers, as our system for financing construction, is not going to guarantee that there will be a response to all of these people walking around with vouchers. Is that correct?

Mr. SAVAS. That is a common concern or common worry all right. We are expanding people's ability to purchase standard housing, but is that going to result in the availability of housing for them? The answer is, inevitably yes—I mean, markets work that way. If we increase the purchasing power of poor people, then housing will find its way to them, or they will find their way to housing. Again, vouchers have been tested and have worked well in tight markets and in loose markets. Housing does appear and makes itself available.

Perhaps the best way to see what's happened in housing is to look over a 40-year period from about 1940 to today—41 years—and look at the enormous improvement in the quality of housing. In 1940, approximately 40 percent of all housing was labeled dilapidated. Now, 41 years later, only about 2 or 3 percent of housing can be so described. The extent of overcrowding in housing was also very high, although I don't have the numbers at my fingertips. Now, 40 years later, the number is down to a very, very modest fraction indeed.

The explanation is not that the Federal Government has constructed housing or paid for the construction of housing. The answer simply has been that the American public has earned more money, has had greater disposable income, and has been able to utilize it to buy housing. The housing industry, the building industry, the shelter industry has been able to satisfy that demand and to fulfill that need.

In other words, it is the ability to purchase housing that has resulted in the availability of standard housing and in the elimination from the housing stock of those millions upon millions of units which were dilapidated some years ago.

This very same concept applies today and it applies to vouchers: By giving poor people access and the ability to purchase standard, decent housing, we are absolutely confident—and I'm confident—that the market will provide that housing. It is working today. It is working in very tight markets today. There is no reason to be concerned about that or to feel that over the long term, an explicit construction subsidy program will be needed.

Senator DURENBERGER. I take it there are other things we are going to need to do in the next tax bill. For example, I know we provided some rather generous tax treatments for rehabilitating commercial and industrial structures that were more than 40 years old. We have neglected to provide that for housing. I take it that is an oversight that we probably ought to correct?

Mr. SAVAS. I think a case can be made for that, to treat all kinds of construction in the same boat with the same basic argument of cost effectiveness. If it is more cost effective to rehabilitate existing commerical, industrial, and residential structures, then let's do that before constructing more buildings. But it is totally an economic argument, in terms of cost effectiveness, to be decided at the lowest levels of responsible decisionmaking.

Senator DURENBERGER. In the examples you used in your statement, you proved the value of using vouchers. Did you find any greater problems present for the handicapped or the elderly as opposed to other parts of the population using vouchers?

Mr. SAVAS. Let me consult for a moment on that, Senator.

[Pause.]

Mr. SAVAS. Yes, it is apparently quite clear that there were participants—elderly and handicapped—in the EHAP program, and today in the section 8 existing program. There is no program there. They are being served as well as any other group.

Senator DURENBERGER. Let me ask you to give some dimension to the long-term investment that we already have and that is going to be with us. Before I got your statement, I heard you say something about a $3 trillion investment in existing stock. I don't know whether that is our total shelter stock or our subsidized shelter.

What is the out-year obligation that we have undertaken through our various subsidized programs?

Mr. SAVAS. HUD's out-year obligation on assisted housing now stands at a quarter of a trillion dollars, $250 billion, for obligation of outstanding debt to be paid off, if future Congresses are willing, over the next 20, 30 or more years.

Senator DURENBERGER. Do you have any new or different ways for us to undertake that obligation over the next 20 or 30 years? How have we done so far?

Mr. SAVAS. We have been looking at ways to try to reduce that, to make some tradeoffs. There does not appear to be a clever way out of that situation. We are in this bind where we have that obligation now. Perhaps in some small ways, around the edges, some of the commitments can be changed or bought out. Unfortunately, it does not look very promising in an economic sense.

All the more reason, incidentally, to be aiming for programs which give the Congress greater control over the programs through things like vouchers, where one is not incurring a 30-year or a 40-year obligation.

Senator DURENBERGER. Would it be appropriate at some point within the next 6 to 12 months for HUD to take a look at a way to sell off some of those obligations? Is there any thought going into that sort of thing?

Mr. SAVAS. Yes; there is thought. There is a great deal of attention being paid, as a matter of fact, to the possibilities of either getting out from under or selling of properties, and so forth.

Experimentally, on a research basis, we are beginning to examine some selected public housing projects which do not appear to be meeting the market test of acceptability, even by low-income people. We are looking at projects which have a very high vacancy rate and a very large operating subsidy per occupied dwelling unit in that project. One of the things we want to explore analytically is whether or not it is possible to give assistance to the remaining residents to move out of those projects and to find other things to do with those projects—whether it is to sell them off, convert them to other uses, or blow them up as the case may be.

Senator DURENBERGER. Blow them up? [Laughter.] That is not a term of art in HUD. That's the vernacular?

Mr. SAVAS. We are considering a broad set of alternatives, in other words. [Laughter.]

Senator DURENBERGER. Let me ask you about something which perhaps we have used a little better in Minnesota than in some areas—that is the A-95 review authority in our regional commission and Metropolitan Council. Some $90 billion a year in Federal categorical programs have been used well in our community to provide what our little society—or our little community—might consider an ideal mix in the housing market with regard to economic levels, minorities, and so forth. It has been criticized a lot, but it has worked pretty well.

Suppose we start moving away from categorical grants to block grants, reducing the Federal categorical involvement in general, and eliminating the A-95 function? Does that, in effect, mean that we at the Federal level have abandoned to the voucher system, the consumer's choice to some of the societal goods that we see in the housing mix in the community? Or, do we see that as a responsibility each community should address on its own?

Mr. SAVAS. Clearly that is a complex, involved decision and choice. It is possible to expand local choices to include a wider array of possible housing programs beyond vouchers if one were to use something, like Community Development Block Grants, to expand certain kinds of activities for which a locality could use the funds. That would retain local options or local flexibility, which is a very attractive kind of notion.

It is the transfer of a 40-year budget authorization and subsequent outlay expenditures which seems exceedingly complex to try to accommodate through housing block grants to the States. That seems to be flawed with lots of complexities, lots of difficulties. I guess it is a fundamental issue of what should be the primary program for housing the poor.

You might argue that the primary program ought to be a voucher program. However, for special purposes, where the local perceptions of housing shortages cannot be accommodated by the housing sector rapidly enough to suit local desires, then perhaps localities could undertake construction programs. If I were a State official, I would proceed very cautiously before undertaking construction programs.

Senator DURENBERGER. Unless we keep—we, meaning those of us who operate at this level of government in the intergovernmental system—unless we keep a financial carrot of some kind, whether it be block grants, CDBG, some tax breaks or something out there, we do run a risk, do we not? When we are financing shelter through the consumer, particularly when we are talking about low-income consumers, their choices might be limited in a lot of communities. They may not find the same kind of a mix—particularly thinking about suburbia—that they now find when we are financing construction.

Mr. SAVAS. Again, I think the evidence, Senator, is that people of all categories are served adequately by voucher programs. Even in tight markets they find units. Perhaps it is important to set aside the perception that many people have. Very often, people exposed for the first time to a housing voucher envision a family—a woman, perhaps, with an infant in her arms trailed by several small children—walking the streets with a voucher looking for a builder to build a house for them. Obviously, that is not a correct picture at all.

It turns out that there are many sources of housing. In fact, during the past decade, in the 1970's, 5 million of the housing units which were added to the housing stock did not come from new construction. They came, instead, from various kinds of conversion and upgrading programs—for example, conversion of industrial and commercial space to residential space; upgrading of units, which were not in the marketplace, to bring them into the stock because of the demand that came into existence; and subdividing, making two-family units out of one-family units or three-family units out of two-family units.

Housing vouchers, by increasing the ability of a poor person to enter into the marketplace and get housing, encourage additional kinds of housing units to come into the marketplace—not necessarily freshly, newly constructed ones, but nevertheless quite adequate. The market turns out to be resilient and able to provide housing of a broad variety to serve a variety of needs, and subject to the restriction that the unit be safe, sound, decent, and satisfactory according to standards set by HUD and by the Congress.

So, despite the concern about whether there may not be enough housing units, the evidence is simply quite strong the other way. One need not worry prematurely that it will not work. I repeat, again, there is a lot of evidence, and not only in theory, that the marketplace does work in this way.

Senator DURENBERGER. What about the possibility of equity operations or home ownership operations of some kind tied in with vouchers? Has that been explored, or is that a possibility?

Mr. SAVAS. It has not yet been explored. That is a very important point, Senator. It deserves greater exploration. The President has spoken out, on more than one occasion, about public housing programs in other nations where the government constructs a unit and then that unit is turned over to a family. The family then operates that unit, is responsible for ongoing maintenance, expenditures, et cetera, and owns that unit.

The point you raised is a good one. We are looking at ways to utilize FHA in new and innovative ways to encourage homeownership.

I should add to that point that one of the ideas currently circulating in the President's Housing Commission is the notion of giving vouchers to people in public housing as well. This ties in with one of the examinations we are doing about what we call the performance funding system, which is the annual operating subsidy system for public housing. We have been enmeshed for several years in trying to find the perfect formula, like our seeking the perfect formula to build perfect housing. The fact is we are saddled with a performance funding system, or an annual operating subsidy system, which is extremely inefficient and which has very few incentives for good management.

One of the things that we are considering is some kind of a subsidy system which is geared to fair market rents in the vicinity. A logical consequence or concomitant of that is giving vouchers to people in public housing projects and either letting them live within that project and turn the voucher over to the authority, or move out if they so choose. Obviously, if such a program were to be recommended, it would be only after a very thorough examination. If it were ever approved and implemented, it would be done very cautiously. I mention these to give you a sense that a great deal of fresh thinking is going on about these complex issues.

Senator **Durenberger**. Let me ask you one last question. It has nothing to do with vouchers.

Last Friday we had a mortgage revenue bond hearing in Atlanta. Someone came from San Francisco and mentioned that the mayor had the temerity to suggest that we and people in local government require the subdivision developers to set aside a fair amount of land for parks and open space. Clearly, on the multiple dwelling apartments we have always made certain requirements about parking setbacks.

She was suggesting that the commercial developers, I assume the commercial office developers in downtown San Francisco, make some special provision for shelter in the downtown area. She didn't elaborate on what her notions were, but I thought it was an intriguing kind of thought. I suppose San Francisco can do that, but Detroit has more difficulty. Is anything like that going on around the country anywhere else that you know of?

Mr. **Savas**. As you know so well, Senator, public officials are always seeking some kind of a magic cure for problems. In this case, it sounds as though, if somebody wants to build an industrial or commercial project, he should also be forced to build some housing. Maybe we can use that same silly notion in the manufacture of automobiles: If you want to manufacture an automobile, you must also manufacture a prefabricated garage.

I am very dubious about efforts to saddle too many different kinds of objectives on one poor, hapless program, thereby assuring that none of the objectives are achieved. But it sounds swell on paper. Let me withhold judgment on Mayor Feinstein's notion there. My own personal reaction is one of extreme personal skepticism because I have seen too many public programs saddled with mutually inconsistent objectives and then people scratch their heads and wonder why the initial objective was never achieved.

Senator **Durenberger**. I have one last question. Can a voucher system be initiated under a number of welfare programs such as AFDC? Or, would we be working at cross purposes if we don't combine these programs?

Mr. **Savas**. There is attention being given to numerous programs which can be broadly defined as income maintenance programs, and trying to achieve some measure of rationality or integration of those programs. It is a little too early to predict that it would happen, but obviously, I think, one has to pay very careful attention to the various kinds of subsidy programs and their interaction.

At the present time, we are saddled with conflicting kinds of eligibility requirements for food stamps, medicaid, housing assistance, and so forth. I think it does make sense to think in a more coordinated way about all those programs.

Senator **Durenberger**. Thank you very much for coming today. We appreciate very much your thoughts.

Mr. **Savas**. Thank you.

Senator **Durenberger**. In 1972, the Rand Corp.—a nonprofit, California-based, research organization—began the Housing Assistance Supply Experiment under the sponsorship of HUD. We have just heard about it. As part of the 12-site EHAP project which Dr. Savas discussed in his testimony, Rand was commissioned to undertake the supply side of the housing allowance experiment in an effort to determine the impact of a voucher type system on the suppliers of housing services in terms of increase in the quality, quantity, and price of housing services.

Do you know that is a 6-line sentence? [Laughter.]

Jack Lowry, an economist with the Rand Corp., headed up that project. We are very fortunate that Jack is willing to be our next witness.

Welcome to the subcommittee hearing.

## TESTIMONY OF IRA S. LOWRY, ECONOMIST, THE RAND CORP., SANTA MONICA, CALIF.

Mr. **Lowry**. Thank you, Senator Durenberger, for the invitation to participate in this hearing. I would like to share with you my ideas about low-income housing problems and possible remedies for them, ideas that grow partly out of Rand's work between 1968 and 1972 on these problems for the city of New York; and partly out of our work on the HUD-sponsored experiment with housing allowances—as they were known then—housing allowances in Green Bay, Wis., and South Bend, Ind. I should emphasize that today I am speaking for myself, not for Rand or for any of our research sponsors.

The first point I want to make is that discussions of housing problems often confuse them with income problems. In the 1930's, it was probably true that a third of the Nation was ill-housed, even by the standards of that time. Today, about 98 percent of all occupied dwellings contain all the basic facilities needed for a healthy domestic life, and 96 percent have at least one room per occupant.

However, I estimate that at least a third of all dwellings in the Nation contain health or safety hazards that violate the national model housing code promulgated by BOCA, the national organization of code administrators. Most of these hazards could be easily and inexpensively remedied by the owners or the occupants themselves. In South Bend, for example, we found that the average cost of bringing a failed dwelling up to standard was about $100, including an allowance for the unpaid labor of the occupant or his landlord.

For poor households today, the salient issue is not housing improvement, but housing expense. It is not easy to say how much a family can afford to spend for housing. It is clear that many poor families, both renters and homeowners, spend between 30 and 50 percent of their gross incomes for housing. Among those who participated in the South Bend program, for example, the average ratio of housing expense to gross income was 54 percent for renters and 46 percent for owners. That doesn't leave much for groceries.

What kind of help do poor families need with their housing? I think it is safe to say that most low-income families would prefer help with their present housing expenses than for better housing. Certainly, that was true in our experimental sites. Enrollees in the allowance program made the housing improvements that were required as a condition of participation. However, their voluntary consumption increases were quite small despite allowances that augmented their incomes by nearly a fourth on the average. We estimate that about four-fifths of the allowance payments were used to offset housing expenses that they were already incurring; or, to put it differently, were spent on other things.

Of course, it is not necessarily true that what people prefer is also what is best for them or for their neighbors. Most of us believe that substandard housing conditions can damage health and social performance in ways that warrant public intervention. That is why nearly every local government has a detailed housing code, usually following the model of the national code. But these local governments rarely enforce their codes except when the violations are conspicuous and egregious. That is why a third of the inventory is currently in violation of the code.

Most of us agree that housing assistance for low-income families should be some combination of housing improvement and financial aid. The appropriate balance between those two objectives cannot be determined by science; it must be decided politically, and at the Federal level—that means by Congress. But I don't think that all of us realize how much that balance has shifted since the 1930's. Housing quality today is essentially a problem of maintenance, not structural inadequacy or dilapidation.

With that preface, I would like now to discuss alternative ways of delivering housing assistance to low-income families. I believe that the best delivery method depends primarily on the mix you prefer between increased housing consumption and financial help to the beneficiaries.

If you want poor people to substantially increase their housing consumption, you will have to tell them where to live. You will also have to supervise the management and maintenance of their dwellings. That is because the beneficiaries of such a program won't voluntarily choose the level of housing consumption that you think is best for them.

On the other hand, if you are mostly concerned about reducing their housing expenses—so that they will have more left for food, clothing, medical care, and recreation—there is no better way than the direct cash grants, without any middleman. The beneficiaries will gladly take the money. They will spend it on the things that seem most urgent to them.

I find it useful to array the alternatives on a scale of decreasing emphasis on housing improvement and increasing emphasis on financial assistance. I can illustrate with four programs: Public housing, section 8 existing housing, housing allowances or vouchers, and income maintenance. The first two are operating programs, and the last two are experimental programs, so we know a good deal about all of them.

Public housing is the program that most fully specifies the participant's housing consumption. Participants can live only in dwellings designed, built, and operated by public authorities. Those authorities determine the maintenance policy without really consulting tenants' preferences.

The financial assistance is indirect. The participants pay less rent than they would for comparable dwellings on the private market, and often less than they would pay for the kinds of dwellings that they would choose absent the program. They therefore have more income left for other consumption.

Section 8 existing housing is intermediate on my scale. Participants choose their dwellings on the private market, subject to approval by a local housing authority. That authority may require the landlord to repair or improve the dwelling, and it also oversees his operating policies. The rent is negotiated between the housing authority and the landlord, and the authority pays part of the rent directly to the landlord. The tenant pays the rest of the rent. Since the cost to the tenant is less than the negotiated rent, and is usually less than the market value of the dwelling, the tenant has more income left for other consumption.

Housing allowances is also an intermediate program. The main design tested in HUD's 12-site experiment offers low-income families monthly cash grants on the condition that they occupy decent, safe, and sanitary dwellings. The participants must find those dwellings on the private market, and must themselves negotiate with owners about rents, conditions of occupancy, and maintenance; but the allowance agency determines whether the dwelling is physically adequate. The cash grant may be applied however the participant chooses. He can spend it on more expensive housing than the minimum required, or he can convert it to nonhousing consumption.

The young lady tells me my time is up.

Senator DURENBERGER. You haven't finished yet. Please proceed.

Mr. LOWRY. OK.

Income maintenance is at the other end of my scale. As tested in experiments sponsored by the Office of Economic Opportunity and HEW, it offers participants unrestricted cash grants, imposing no requirements at all for housing consumption. With augmented incomes, some participants choose better housing, but most of the grant goes for nonhousing consumption.

My colleagues at Rand have devised a scorecard for each of these programs that shows the destination of Federal dollars in each. Although the partisans of each program will probably quarrel with some of the assumptions that we thought were needed for comparability, the results are nonetheless instructive. The numbers are as follows:

DESTINATION OF HOUSING ASSISTANCE DOLLARS IN ALTERNATIVE PROGRAMS

| Destination of Program Dollars | Percent of Total Program Dollars | | | |
|---|---|---|---|---|
| | Public Housing | Sec. 8 Existing | Housing Allowances | Income Maintenance |
| *Beneficiary* | | | | |
| Program participants | 34 | 56 | 85 | 89 |
| Other consumers | 6 | 0 | -2 | -1 |
| Builders, landlords, administrators | 60 | 44 | 17 | 12 |
| Total | 100 | 100 | 100 | 100 |
| *End Use* | | | | |
| Housing consumption | 8 | 12 | 15 | 7 |
| Other consumption | 92 | 88 | 85 | 93 |
| Total | 100 | 100 | 100 | 100 |

SOURCE: C. Peter Rydell, John E. Mulford, and Lawrence Helbers, *Price Increases Caused by Housing Assistance Programs*, R-2677-HUD, October 1980; Rydell and Mulford, *Consumption Increases Caused by Housing Assistance Programs*, forthcoming. Both are publications of The Rand Corporation.

As we move across my scale from Public Housing to Income Maintenance, the proportion of each Federal dollar that ends as a benefit to those who enroll in the program increases. However, the participants' benefits split differently in each program between increased housing consumption on the one hand and general financial assistance. Section 8 and the housing allowances channel about twice as much of each Federal dollar into housing consumption as do the public housing and income maintenance programs.

The poor showing of the public housing program may not be intrinsic to that program. The main reason for that poor showing is that public housing authorities have been very inefficient as developers and operators of rental property. They spend about $200 to produce housing services with a market value of $100. That happens in part because their development budgets have been sheltered from full costs by land purchase subsidies, in part because the development process itself is overregulated, and in part because their operating costs reflect a very difficult-to-manage mix of tenants.

The main message I want to leave with you is that your choice of delivery mechanisms for housing assistance ought to depend on the balance you want to achieve between housing consumption and financial assistance. The subsidiary message is that there are very good reasons for reappraising that balance in light of the improvements to America's housing inventory that have occurred in our time.

Thank you.

Senator **Durenberger**. Thank you, Jack.

That was a good experience for me, carrying me through that. It reminded me of the first time, about 3 years ago, whenI sat down with Dave Stockman and had competition in health care explained to me. It came out about the same way. It took me about 1½ years to understand what he was talking about. I hope my learning here is somewhat sharper.

I think you have clearly laid out the role that those of us in public office can play if we choose to take it. When you lay it out that way, it is not easy to apply judgment without getting some advice from someone like you as to who, in a governmental sense, ought to be making the decisions about the delivery mechanisms. I could make it at this level, as I have been making it through a variety of programs like the section 8 program and some public housing programs.

I would clearly be more comfortable if it were being made either at the State level or, preferably, at the local level. Shelter is often looked on as part of a community development responsibility which those elected to be city councilmen or mayors ought to take. Yet, there is the gnawing feeling that, because we are dealing with those whose economic access has been denied in one way or another by our system in this country, I have some responsibility to influence that choice in some way.

So I am just going to ask you what I hope is a relatively simple question. It relates to the level at which you would be most comfortable seeing public policymakers making these decisions. Don't answer that it depends on whether you think more of having a permanent stock of adequate housing or you just want to make sure that people have been treated adequately. What are your feelings about what is the most appropriate level at which these decisions ought to be taken?

Mr. LOWRY. It seems to me that decisions about the minimum socially tolerable level of housing consumption and the minimum socially tolerable level of living generally is almost inevitably a Federal decision. If it is left to lower levels of government, you get standards that vary from State to State in ways that have nothing to do with the problems that give rise to standards in the first place. It is only at the Federal level that we can make a global decision about minimum standards of social tolerability.

What the State and local governments are good at, in housing-related things, is rebuilding parts of their cities. But when they do that, by and large, their concern is not low-income housing, but civic housekeeping. They want handsomer cities; they want attractive cities. These are all good things. Usually when the money has been given to them, or they have raised it on their own, the consequence has been the displacement of poor people in favor of something that is more a civic credit than low-income housing.

The star performer in this regard is the urban renewal program that ran through most of the fifties and the sixties. It started out with a very strong front-end notion that urban renewal would do something about slums. It did; it tore them down. The people who used to live in them had to go somewhere else.

So, I think that it is going to be up to the Feds to make decisions about minimum housing and living standards in this country. It ought to be up to State and local governments to plan and design the local landscape.

Senator DURENBERGER. You clearly point out that, if we are to leave the choice at the level of what you as an individual do to meet your variety of needs with the dollars we provide, we have to make some decisions about housing apart from our income maintenance decisions in much the same way that we make decisions about food stamps and about medicaid. That, in effect, might argue that federalizing these income maintenance and related expense-paying programs is the only way to go. The notion of the passing on to the State and local governments the medicaid program, the food stamp program, or the AFDC program really does not fit, it seems to me, with your recommendation about our responsibility to people's shelter. Am I correct in that assumption?

Mr. LOWRY. I will make a distinction between setting standards, putting up the money, and running the program. For example, State governments have run unemployment compensation programs for some time and, on the whole, successfully. However, they do not put up the money for them, and they do not set the standards for them.

One notion in the realm of housing assistance—which has always been rather attractive to me, but has never been explored in technical depth—is the notion that a nationally funded housing voucher program might take effect in local jurisdictions which met certain performance standards in the enforcement of its housing codes. Then, you would get the locals doing what they are good at. With the housing voucher, the locals couldn't say, "If we shut down substandard housing, people will have no place to go," because everybody would have enough housing income, at least to afford a decent place to live.

Senator DURENBERGER. Let me ask you a question which relates to the Rand EHAP project. I asked Dr. Savas about the participation of the handicapped or the elderly.

I understand that in the Rand experiment, there were a number of eligible households that chose not to participate in the housing allowance program, but that still received some form of public assistance for housing. I am curious to know if that group can be categorized in any way. What happened to them? What implication does their lack of participation have for a national policy on vouchers?

Mr. LOWRY. The experiments conducted by Rand in Green Bay and South Bend were always open enrollment programs. They were funded to operate for 10 years. They still are operating in those two jurisdictions.

What we simply did was to announce, "If you have a low income, you may be eligible for a housing allowance. Come in and see." Then we found that we got an excellent cross-section of people who were interested in the idea. In fact, only about half the people who applied turned out to be actually eligible by the income standards. So they weren't holding back. The mix of people who actually enrolled was a good cross-section of the poor.

We found that old people were a little slower to enroll. It took them a while to get used to the idea, or maybe to hear about it. However, by the end of 3 years of operating experience, they were enrolling at about the same rate as everybody else. The minorities, if anything, enrolled at a higher rate than other people.

Once in the program, we found—and this surprised us—that both the elderly and the handicapped were as successful as anyone else in meeting the housing standards. It also appears that this success of the program—not only of the elderly and the handicapped, but of poor people generally—was due to an informal self-help network. As Steve told you, about half of the dwellings in this program were initially unacceptable. Nearly all of them got fixed. They got fixed by the owners and the occupants themselves doing the work without three competitive bids, a certificate from the city treasurer, or anything else. Nearly everybody has a brother-in-law who can fix a leaky pipe or patch a hole in the roof. The program provided the incentive to get these things done, and those resources were called upon.

Senator DURENBERGER. Were these individual arrangements?

Mr. LOWRY. Absolutely.

When the house was defective, we told the client of the program—the enrollee—what was wrong with it and what would constitute an acceptable remedy. We patted him on the back and said, "You're on your own."

Senator DURENBERGER. All right, Jack. Thank you very much. I appreciate your testimony.

Next we have a panel. One of the basic concepts behind the idea of alternatives in public service delivery is the involvement of actors other than government in the delivery of public services. Our next witnesses represent two organizations that have been very successful in linking public, private, and neighborhood sectors together in an effort to solve some very serious housing problems.

William Whiteside is with the Washington, D.C. based Neighborhood Reinvestment Corp. Kenneth Glover is a vice president of the Neighborhood Fund and an officer of the South Shore Bank in Chicago.

Bill Whiteside, you are going to go first?

## TESTIMONY OF WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR, NEIGHBORHOOD REINVESTMENT CORP.; AND KENNETH GLOVER, VICE PRESIDENT FOR NEIGHBORHOOD FUND, SOUTH SHORE BANK, CHICAGO, ILL.

Mr. WHITESIDE. I appreciate the opportunity to appear before you today, Mr. Chairman, to tell you about the work of the Neighborhood Reinvestment Corp.

First, just a word or two about the corporation. This organization grew out of a pilot effort by the Federal Home Loan Bank Board to stimulate urban lending 11 years ago. It grew into the Urban Reinvestment Task Force which included all of the Federal financial regulatory agencies and HUD in support of its neighborhood revitalization work. The task force was staffed by the Federal Home Loan Bank system, but HUD played a major role in its funding, providing some $23 million in funding resources over 5 years. In 1978, the Congress decided that the demonstration had been successful and created the Neighborhood Reinvestment Corp. to carry on and expand the work of the task force.

The main work that we carry out is the development and assistance of Neighborhood Housing Services programs. The Neighborhood Housing Services program focuses on moderate-income neighborhoods; provides assistance to residents there in bringing their homes up to, at least, minimum code standards; and does this through a unique public-private partnership. The NHS residents are involved very deeply and put in untold volunteer hours to make the program work—selling it to their neighbors, and participating on the board and on committees.

The city government participates, again, through active involvement on boards and committees; providing city services to the neighborhoods on an intensified basis; upgrading public amenities; providing housing inspection services; and contributing to the revolving loan fund that the program manages.

The private sector is deeply involved. We began primarily with savings and loan people. We expanded that to banks and savings banks and later to credit unions. Now insurance companies and other corporations are getting involved. These private parties bring to the NHS a number of things: One, they do business in the neighborhoods. We are in neighborhoods that were declining and were generally not considered a very favorable place to do business. Doing business in the neighborhoods means making loans to people who meet your normal underwriting criteria; and writing insurance policies for people who are considered good risks—looking at each individual homeowner or person applying for insurance rather than making blanket judgments about the neighborhood.

The private sector also contributes to the operating budget of the Neighborhood Housing Services program. Business representatives, in their service on the NHS board and committees, bring their management skills—their fiduciary responsibility sense, if you will. They have brought a strength of management to the NHS program that has been a unique contribution to the strength of the program.

Normally, there is a numerical majority of 1 among the neighborhood residents on the NHS board; an 11-member board would have 6 residents and 5 lenders, by and large.

I mentioned the revolving loan fund. Each Neighborhood Housing Services program has a revolving loan fund that it controls. The Neighborhood Reinvestment Corp. provides a small capitalization grant to help it get started. The fund also receives Community Development Block Grant funds provided by city government, and grants from foundations and businesses, building up to a fund of $300,000 to $1 million, depending on the size of the program and the resources of the community.

Loans from the revolving loan fund are made available to homeowners at completely flexible rates and terms so that people who don't meet the normal underwriting criteria of lenders can improve their homes. So it is a simple decision. You are either bankable or unbankable. If you are bankable, you are referred to a participating lender; if not, to the loan fund.

There has been a remarkable success in the repayment history of those loans made out of the revolving loan fund. We found that if loans are tailored to the ability of homeowners to repay, they pay it back. You need to start, however, with the disposable income available to the homeowner, and the work that needs to be done. Then you work backward to the rate and term of the loan. You also need a certain flexibility so if illness or unemployment intervenes, the loan could be restructured. Rather than going into legal remedies, the NHS works out a new basis on which that homeowner can continue making payments on the loan.

The loan fund is a tool to enable all the homes in the neighborhood to be improved. We have found that dealing with the most blighted property, dealing with the properties of the least able homeowners, affects the confidence of everyone else in the neighborhood—that and the public improvements that they see going on. Then other homes are brought up to minimum standards, or frequently brought well above them, by homeowners who can afford to make the investments themselves. Thus, instead of the years or generations it would take only a small staff to work one-on-one with every homeowner in the neighborhood, by working on a careful strategy on the homes most in need of improvement, you can generate a snowball effect. This produces an upward spiral like the downward spiral that brought the neighborhood down 10 years ago.

NHS programs operate now in 110 cities in 44 States and in the District of Columbia. They serve 143 neighborhoods. A million people live in those neighborhoods. We currently have 30 additional NHS programs in development, and we are currently helping the expansion of 8 existing programs to additional neighborhoods.

Senator, you may be familiar with the programs in the Twin Cities area. They have operated there since 1976 in the southside neighborhood in Minneapolis, and Merriam Park in St. Paul. Then, in 1980, we were requested to help the programs expand to additional neighborhoods. They have expanded to the northside neighborhood in Minneapolis and to Dayton's Bluff and the west side in St. Paul. They have a half million dollar annual operating budget to serve these five neighborhoods, all of which is provided by the financial community and a growing number of other corporations in the Twin Cities area.

I mentioned that we help. I should explain our role. It is a rather unusual role for a federally supported entity. We are primarily educators. Our job is to get these unlikely partners—the residents, the city government, and the business community—working together, helping them to find the common ground on which they all have something to gain, and help them build working relationships and trust with one another so that when we leave after a year of work in the community, that program can operate successfully. The partnership will hold together and provide long-term leadership.

We have found that, although the program typically starts in one neighborhood, its success leads it to be invited to serve other neighborhoods. The NHS becomes a lasting institution in the city, serving a growing number of neighborhoods over time.

We also monitor the programs and provide for their public accountability. We provide training for NHS program staff members. A typical program has a staff of three or four, many of whom participate in our training programs. We provide technical assistance of many kinds for the programs to help them become strong and viable. We provide a secondary market for revolving loan funds. The secondary market is interesting in that these are loans that have an average term of 12 years and an average rate of 5½ percent. They are made to people who don't meet anyone's credit standards.

Through the help of the Federal Home Loan Mortgage Corporation and the help and advice of the Ford Foundation, we were able to devise a secondary market. The loans that are purchased from the local NHS programs back securities which are now being purchased by an institutional investor. The Equitable Life Assurance Society of the United States bought the first $3 million in such securities. There has been, just recently, a commitment for $5 million by the Prudential Insurance Co.

Senator DURENBERGER. In what timeframe were you going to market these?

Mr. WHITESIDE. The $3 million have been provided to local programs over a period of about 3 years. The $5 million will be put out in a period of 2 years. The number of programs which are operational and in need of this resource has accelerated rapidly in the last few years.

In an average NHS neighborhood of 2,500 homes that has average program difficulty and average resources, we find that they can complete their initial goals in about 5½ years. During that period of time, about $12 million in reinvestment occur in the neighborhood. Since the beginning of our work in 1970, the NHS programs have documented reinvestment of about three-fourths of a billion dollars. The cost to the Federal Government has been $50 million in demonstration grants and appropriated funds for Neighborhood Reinvestment and its predecessor.

I see that I have run out of time. There is a great deal more I could say. I hope you will pull some of it out of me with your questions.

Senator DURENBERGER. Thank you very much.

Mr. Glover?

Mr. GLOVER. Good afternoon, Senator.

On behalf of the Illinois Neighborhood Development Corporation [INDC], I would like to thank the subcommittee for allowing us to participate in this forum. We find the issues here topical and incredibly important to all communities. Also we appreciate the chance to share with you the experiences that we have had in South Shore. Still further, we find this an excellent audience for assessing critical questions related to housing and neighborhood development. I would like to briefly discuss some of those critical questions as a summary to my written statement.

Question No. 1 would be: Can housing be discussed in isolation of the two other components of development—commercial development and industrial development? Perhaps it can, but we should keep in mind that the components in neighborhood development are interactive, interdependent, and interrelated. I guess another way to restate this question would be to say: Can we really talk about homes without talking about jobs, or can we talk about homes without talking about the delivery of goods and services to the residents?

For this forum, we will assume that you can. If so, you should be mindful that there are requirements for a successful program: One, adequate financial and nonfinancial resources; two, program management which is responsive to the needs of the community and is accountable to the people of the community; three—and something that is somewhat dear to my heart—profit; four, simultaneous social and economic development; and five, citizen participation that is continuous and institutionalized.

The second question would be: Who are the necessary actors in this activity? For a long time we have been saying that there is a need for a public/private partnership. That's true; but I think, to go further, we must say that that partnership must have distinct roles with distinct skills. For example, the business community has long been a repository for resources of all kinds and for management and program skills—these seem like rules which should carry over to a development process. The public sector has long been a facilitator, an expediter, and a program developer—again, roles that should perhaps transfer over to housing development. The third partner is actually the community at large. They have an absolutely uncanny ability and capability to translate the needs, as they define them, of their community into innovative programs.

A third question would be: Should banks be involved; and, if so, how? From our experiences, we think that banks should be involved and intricately so. We think banks are the ideal core of institutions for development: One, they are well capitalized; two, they have a knowledge of the local community; three, they are well-known and generally well-respected in the community; four, they are profit oriented; five, they are highly regulated; and six, they have access to incredible pools of credit.

However, because banks are ideal cores for development, we should not assume that they represent a panacea in housing development. In fact, they do have limitations as development vehicles. They can't do equity investments. They can't own businesses or housing projects. They can't own stock, and they can't speculate in the community. In short, they cannot provide all the resources and requirements that are needed in the development process.

Related to these limitations is another question. Since we still need to have banks involved, how do you get banks involved if banks are profit-oriented institutions? It seems that to get them involved in the process, you have to develop profit incentives. Briefly, I think there are probably two different types of incentives which would bring a bank into a lead role in housing development projects.

One type would be the nonsubsidy type of profit incentive which is actually affording a bank a marketplace advantage. It would be a carrot and a stick approach where, for doing certain kinds of things like community reinvestment, you would be able to do other things. An example would be banks which are very interested in competing with the money market funds. A bank that shows development initiatives could also have a deposit instrument that was competitive with the money market funds. Branching is a hot issue, both interstate and intrastate. Perhaps this is another way of getting them involved in the process. There is also revenue bonds underwriting and rewarding the development initiatives with interest rate concessions. Another example would be the all-savers certificates which would run 2 years instead of the programed 1 year.

The second type of profit incentive may be a subsidy for the proper development activity. We could talk about reduced reserve requirements, or lower rates at the discount windows, or tax credits for developmental financing.

In closing, the task of rebuilding cities, creating jobs and improving the housing stock is complex; it has defied the energies and resources of our Nation for a long time. Perhaps, an approach to handling this complexity is a more active involvement of our Nation's banking system, which was designed to stabilize the economy and employ the savings of the Nation's economic development. Perhaps, now is the time to launch a major inquiry into the innovative recycling of the drive, resources and resourcefulness of the Nation's private banks and direct them into the business of housing and neighborhood development.

Thank you.

Senator DURENBERGER. Thank you both very much for your testimony. Let me start out with a general question which relates to some of the things we have been hearing today in terms of empowering consumers to make decisions. We talked first with the Assistant Secretary about vouchers as a form to facilitate those decisions. Then we talked to Jack Lowry about our various choices from cash to the more housing specific facilitator.

Based on your own experience, I would like both of you to react first to your confidence in consumers of housing to make good decisions and to participate in making those decisions. What are some of the key elements you see in the decisionmaking process? In other words, what makes them use the money wisely, to get the most for their money?

I will start with you, Mr. Whiteside.

Mr. WHITESIDE. I guess I see it as a little more complicated than just making decisions. The state of confidence about a neighborhood has a great deal to do with your decision about investing in housing. We find that, once a neighborhood starts to turn around, investment funds flow from places we don't even know about. The pace picks up very rapidly over the direct lending by the NHS and by the lending institutions. So the environment of confidence in which decisions are made is extremely important.

Another element is that those are hard decisions to make for moderate- and low-income homeowners and for elderly people. Some encouragement and counseling is helpful to them in making these decisions.

Finally, they are making decisions in a very complex technological area. Some technical assistance is helpful in bringing those decisions to a fruitful result. For instance, if you get the wrong contractor in a rehabilitation job, it can make a great deal of difference in the quality of the work and in your satisfaction with the decision you have made. Having some assistance on that sometimes makes an enormous difference, particularly to a less sophisticated homeowner.

Senator DURENBERGER. Ken mentioned that other things have to happen in the neighborhood, like some initial commercial development. Do you make some infrastructural judgments before you go into a neighborhood?

Mr. WHITESIDE. The decision about which neighborhood to go into is made locally with our advice and counsel; however, it is basically a local decision made by a partnership group of residents, city representatives and lenders in the city.

We have found that neighborhood revitalization can go forward without addressing those other factors, but it clearly helps if you have an ability to affect employment, if you have an ability to affect the commercial area. After 7 years of work, we have come up with a model for a neighborhood commercial business center that we are satisfied with and that will turn around a blue collar neighborhood business district without a lot of the trendy things that we have seen at work in other areas. We are proceeding with demonstrations of this model in Bridgeport, Conn., and Atlanta, Ga. Clearly, revitalization of the commercial area would make a great deal of difference, and it would help a lot, but we have seen a great deal of housing rehabilitation take place—out of necessity—without those supportive elements.

Senator DURENBERGER. Do you want to respond, Mr. Glover?

Mr. GLOVER. I think, in answering your question, it is really a combination of three factors: The opportunities, the timing, and the assistance that can be provided—especially dealing in this interest rate market. We have to come up with some sources of money that people can afford.

We had a couple of interesting housing experiences in South Shore, one of which was a sweat-equity co-op. We bought a building from the city for a token fee. We were then able to bring the building up to a stage where all the systems were in. The only thing it really needed was finishing and fixturing. People were then able to have an ownership share in a cooperative association for a $500 payment and roughly $350 a month and provide the finishing touches in the actual living space for a reduced rate. We took a building that was basically empty and put people in who could afford that payment level. That is where the availability and the opportunity come into play.

I think also, getting back to the points I made earlier, the market has a strange way of dealing, of making its own opportunities. As we have developed certain parts of our area commercially, we found out that they automatically create other opportunities; they make people want to go in and fix up their homes. We see a lot of storm windows being installed in multifamily units—that is really what you look for to see if the area is turning around. If the area is turning around, you will see storm windows and those sorts of things.

In summary, what we really have to do to get housing back is to use or to have a total comprehensive approach. This is not to say that the INDC model, which is the back page of my testimony, is the only way to approach it. However, it is a good way because you have the social reinforcement which my copanelist was talking about before. It will foster a certain kind of education in housing.

Senator DURENBERGER. In your opinion, what are the barriers in current Federal policy toward shelter that we ought to be looking at?

Mr. GLOVER. I think probably the biggest fear that the public sector should have is not limited to the Federal level; it is actually trying to impose a program on an area. That's really unfair, because it is very tough to legislate a program that is effective in all kinds of communities. We need to be able to have flexibility. Some of the block grants, and things like that, afford local areas the opportunity to develop a specialized program. This is perhaps the biggest barrier that I see.

Senator DURENBERGER. Our insistence on a programmatic response? In other words, as Jack Lowry from a public housing sector said, "to convert that housing." Now we are talking vouchers and allowances. Within each of those, we have a variety of programs, if you will, that we will impose on a community in exchange for their acceptance of dollars. Is that one of our problems?

Mr. GLOVER. It is one of our opportunities. I guess those things should not be taken away at all. They should be available, but with the understanding that they are useful in certain communities and not in others.

Senator DURENBERGER. OK.

Bill, any comments?

Mr. WHITESIDE. I will just like to second that statement—that the delivery mechanisms are needed. As money is increasingly channeled through State and local governments, the ability to utilize it effectively and to get something to come out of the end of the pipeline is, it seems to me, of extreme importance.

I think there is a lot of dissatisfaction with the large programs in past years that have been extremely expensive; and, like a Procrustean Bed, you had to trim the patient to fit the remedy. We are well past those, but we have to develop, now, a new generation of ways to make sure that the resources we provide get used in the right places in the right way.

Senator DURENBERGER. Thank you both very much for testifying. I appreciate it.

[The prepared statements of Messrs. Whiteside and Glover follow:]

## PREPARED STATEMENT OF WILLIAM A. WHITESIDE

Mr. Chairman, it is a pleasure to appear before your committee today. I will focus my remarks particularly upon our experience in mobilizing the resources of the private sector to carry out public and community purposes.

First, I will give you a general picture of our organization and our main activities. The Neighborhood Reinvestment Corporation is a nonprofit public corporation receiving direct Congressional appropriations. The Corporation was created by an Act of Congress in October of 1978 to carry on and expand the work of its predecessor, the Urban Reinvestment Task Force, in the development and support of Neighborhood Housing Services (NHS) programs and other promising neighborhood revitalization strategies. The Corporation's Board of Directors is composed of:

Richard T. Pratt, Chairman
Chairman,
Federal Home Loan Bank Board

Lawrence Connell, Jr., Vice Chairman
Chairman,
National Credit Union Administration

Samuel R. Pierce, Jr.
Secretary,
U.S. Department of Housing and Urban
  Development

Charles E. Lord
Acting Comptroller of the Currency

J. Charles Partee
Member, Board of Governors
Federal Reserve System

William M. Isaac
Chairman,
Federal Deposit Insurance Corporation

The Neighborhood Reinvestment Corporation is committed to stimulating local, privately based partnership efforts which successfully reverse the process of neighborhood deterioration for the benefit of current residents. This commitment is translated into reality through the Neighborhood Housing Services programs and other neighborhood programs which are based upon working partnerships of neighborhood residents, financial institution and other business representatives and city government officials.

Neighborhood Housing Services programs address the problem of disinvestment in older neighborhoods. The physical characteristics of a neighborhood suffering disinvestment include undermaintenance of structures, declining or stagnant market values, vacant and abandoned buildings, demolition of structures, lack of viability of neighborhood commercial areas and limited public services and undermaintenance of the public infrastructure.

Accompanying these physical conditions - partially causing the conditions and partially being caused by the conditions - are problems of a deterioration of the social fabric of the neighborhood. These include, in varying degrees, reduced homeownership, increased transiency, increased crime, arson, etc.

Neighborhoods are affected by these conditions in varying degrees. A neighborhood severely impacted by all of the above problems might be beyond salvage given the present state of the art. Neighborhoods with varying lesser degrees of problems can be "turned around" through appropriate reinvestment strategies and the utilization of varying amounts of resources. The Neighborhood Reinvestment Corporation has focused on neighborhoods showing evidence of deterioration and lack of maintenance, but which average 83% of city-wide median incomes, and generally have a substantial degree of homeownership.

We estimate that several hundred such neighborhoods throughout the nation are at pivot points where intervention by a local partnership equipped with NHS tools can tip the balance from decline to revitalization.

The problems of disinvestment have been intensified and complicated by recent economic developments. High rates of inflation have eroded the purchasing power of neighborhood residents, while at the same time increasing the costs of needed repairs. Similarly, high utility costs have exacerbated the problem, requiring, in areas of climatic extremes, significant weatherization outlays in order to reduce annual utility expenditures.

Central to the problem of disinvestment is the lack of confidence in the neighborhood by the private sector, governmental bodies, and the residents themselves. Because of this factor and the interactive nature of causes and effects, it has been difficult for any one sector to address the problem. The private sector -- particularly financial institutions which have been widely criticized for "redlining" -- cannot affect the underlying conditions simply by changing lending policies or insurance underwriting standards. Residents lack the resources to pull themselves up by their bootstraps however much they may be willing to try; and few governmental approaches have been able to marshall the private and citizen resources required. A comprehensive, coordinated strategy which can simultaneously rekindle confidence in the neighborhood by all significant actors is needed to successfully address the problems of disinvestment in older neighborhoods.

Neighborhood Housing Services (NHS) programs utilize such a comprehensive, coordinated reinvestment strategy. With the goal of bringing about neighborhood revitalization for the benefit of current residents through mainly private reinvestment, NHS programs exert a long-term stabilizing influence on a neighborhood. Their work reverses decline and reduces risk for lenders, insurers, and others doing business in the neighborhood.

This reinvestment strategy is carried out by a partnership of neighborhood residents, business and financial leaders, and local government officials systematically improving housing and upgrading amenities. For the strategy to have the desired long-term results, an improved quality of life must be perceived in the neighborhood by the residents and by the larger community. This perception reverses the weak demand factors which contribute to disinvestment and brings about a strengthened real estate market.

Neighborhood Housing Services programs operate through privately based, locally controlled nonprofit corporations with working boards of directors composed of representatives of the three partnership groups. No partner controls but neighborhood residents constitute a numerical majority on the board and are seen as "first among equals" in the partnership. The board, with committees, carries out the ongoing responsibility to develop the resources to operate the program. These resources include: a loan fund and administrative operational funding, public improvements, inspection services, bankable lending, a high degree of organized resident's support, and adequate staffing. Through NHS, each neighborhood is being helped toward a strengthened economic and social fabric. The help includes targeted public services and capital improvements, financial and rehabilitation counseling, loan referrals, and loans at flexible rates and terms for unbankable homeowners. Everyone's property values are enhanced as owners are encouraged to upgrade their properties:

- directly by NHS staff;
- by city housing inspectors, and
- by the growing awareness that the neighborhood is once again becoming a place in which one can confidently invest.

The staffing of an NHS is carried out by a small but highly skilled and committed staff. This staff works from an office in the neighborhood and provides the following services:

- Rehabilitation counseling; analyzing home repair needs, preparing work specifications and cost estimates, advising residents on home repairs and local contractors;
- Financial counseling and referral: advising residents on the acquisition of home improvement financing, assessing and solving real estate-related problems, referring residents to lenders or other non-NHS resources as appropriate;
- High risk loans: providing loans from the high risk revolving loan fund to residents who are unable to obtain credit from conventional lending institutions;
- Construction monitoring: assisting homeowners in working with contractors and in inspecting home repair work; and
- Community involvement: working with the NHS community relations committee and local organizations to promote activities which will strengthen neighborhood pride, such as community newsletters or street festivals.

These services are carried out in most neighborhoods in coordination with a sensitive, systematic housing inspection program. Inspections are requested by the neighborhood and are aimed at achieving voluntary compliance to ensure that all neighborhood housing meets generally accepted health and safety standards. To accomplish this, city housing inspectors work on an individual and highly personal basis with the NHS staff and homeowners.

The initial goals in an average NHS neighborhood of 2,500 dwelling units are completed in approximately five and one-half years, given average program difficulty and average resources. A study was conducted for the Neighborhood Reinvestment Corporation, based upon a sample of 12 NHS programs; it also drew upon data developed by a HUD study which sampled 20 NHS programs. This study estimates, based on data available for 1979, that total reinvestment that year by owner-occupants in 106 NHS neighborhoods was as high as $100 million. This total is based on an average NHS neighborhood of 2,500 households, half of whom are owners, 64% of whom invested in their property for an average of $1,058. This amount is double what one would expect in an average urban neighborhood. This total does not include investments by non-occupant owners, public improvements, or improvements made by institutions and nonprofit organizations.

Drawing upon the analysis of this study as well as Neighborhood Reinvestment's program data, it is estimated that in a five and one-half year period more than $12 million in reinvestment occurs in an NHS neighborhood of average size, average program difficulty, and with average program resources. Eighty percent represents private reinvestment, most of which is made by individuals in mortgages, home improvement loans or direct cash expenditures within the neighborhoods. (The value of "sweat equity" is not included here.) One cannot, of course, attribute the full $12 million to the presence of NHS since some of this investment would likely occur even in the absence of a program. The neighborhoods when selected are, however, generally below average in reinvestment activity and mortgage activity.

As the following table shows, nearly three-quarters of a billion dollars had been reinvested in NHS neighborhoods through FY 1981 -- stimulated by Federal expenditures of less than $50,000,000.

# ESTIMATE OF THE LEVERAGED IMPACT
# OF
# NEIGHBORHOOD HOUSING SERVICES PROGRAMS
# THROUGH FISCAL YEAR 1981

Reinvestment in NHS Neighborhoods*

| | |
|---|---|
| Loans made through NHS loan funds | $ 20,000,000 |
| Loans made through financial institutions by referral from NHS | 91,000,000 |
| Loans made by city/state loan programs | 20,000,000 |
| New mortgages written in NHS neighborhoods | 300,000,000 |
| Other rehabilitation** | 202,000,000 |
| Capital improvements to NHS neighborhoods | 45,000,000 |
| TOTAL | $678,000,000 |

Federal Investments

| | |
|---|---|
| Federal funds expended to date*** | $ 48,084,000 |

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* Estimates based on data collected for the evaluation of Neighborhood Housing Services programs by the U.S. Department of Housing and Urban Development (conducted by Urban Systems Research and Engineering, Inc.) Describing Target Neighborhoods, April, 1980, and unpublished draft of final report.

** Investments by owner-occupants financed through savings or money borrowed independently.

*** Urban Reinvestment Task Force demonstration grants 1974-1979 of $23,625,000, FY 80 appropriation of $12,000,000, and FY 81 appropriation of $12,459,000.

The Neighborhood Reinvestment Corporation is responsible for creating NHS programs. Bringing an NHS program into existence involves creating a working partnership among disparate groups -- groups which, before the NHS developmental process, more often than not exhibit some degree of hostility or lack of confidence in one another. The men and women on the program development staff of the Corporation are trained in educational processes designed to "build bridges" between the partnership groups, enabling the three groups to discover the common ground on which all have something to gain and on which none are required to sacrifice basic self-interests. Neighborhood Reinvestment staff provide participants with the necessary information and understanding to develop an NHS program tailored to the needs of their local community.

The developmental process necessary to establish a new NHS usually takes between 9 and 12 months. The process begins with an application or expression of interest from a city government, an individual or community group, or a local financial institution. In response to that inquiry, Neighborhood Reinvestment staff visit the city in order to assess the willingness of potential members of the partnership to commit their energies to the program.

Once Neighborhood Reinvestment staff are convinced that the potential commitments exist for the formation of an NHS, a field representative is assigned and a local program coordinator is hired. The local coordinator, someone who is already familiar with the community, works with members of the potential partnership groups in preparation for five developmental workshops.

The first workshop brings together business and financial leaders, city officials, and community leaders to learn in depth about NHS and commit themselves to establishing a program. An affirmative decision involves the following commitments:

- All partners agree to serve on committees for the remainder of the developmental process and to actively participate on the NHS board of directors, once established.
- Business and financial leaders agree to make financial contributions in support of the NHS operating budget. Lenders agree to make conventional loans to qualified NHS residents.
- City officials agree to make sensitive and systematic code inspections and capital improvements in the target neighborhood, cooperating with residents in identifying needs. Officials also commit to provide capital for a high risk revolving loan fund for unbankable residents. In smaller cities, the city also may provide part of the NHS operating budget.
- Residents agree to actively participate in the program by improving their homes and neighborhoods in cooperation with the other two partners.

The remaining workshops involve selecting a target neighborhood, observing an operational NHS in another city, adopting by-laws for the new corporation, and electing a board of directors. The developmental process culminates with the hiring of staff and the initiation of operations in the NHS neighborhood.

Following development of a local NHS program, it is fully autonomous and operates independently of the Neighborhood Reinvestment Corporation. On request, however, Neighborhood Reinvestment provides training and technical assistance to local NHS programs to ensure their continued viability and effectiveness.

Neighborhood Reinvestment's NHS training department offers several intensive courses for new and prospective NHS staff members:

Executive Director's Training Program. This two-week course provides new executive directors with a grounding in the philosophy and goals of NHS, leadership development, service delivery principles for voluntary organizations, and in day-to-day administrative skills. It also provides a general examination of the technical skills affecting an NHS: revolving loan fund principles, appraisals and loan underwriting, conventional lending principles, contract monitoring, and housing rehabilitation techniques.

Rehabilitation Specialist's Training Program. This comprehensive three-month course provides two weeks of administrative training and six weeks of classroom technical training in such subjects as specification writing, carpentry, electrical work, and cost estimating. The participants, who usually have a background in construction, are then assigned for a full month to an operating NHS where they work under the close supervision of an experienced rehabilitation specialist.

Neighborhood Reinvestment's field service staff also provide a variety of on-site training tailored to meet the individual needs of each program. This assistance includes:

NHS Executive Director Orientations - designed to provide a new director with a general overview of NHS operations, and a recommendation for an individually-tailored self-education program which may include an internship in a savings and loan, a bank, or the city's code department.

Board of Directors Workshops - helps the boards of newly-formed programs formulate their committee structures, establish goals, and define the roles of board members and staff. Established boards may request a workshop as a structured forum in which to review their progress, set new goals using management-by-objectives techniques, or draw upon the experience of other programs to overcome a particular problem.

The support activities provided by Neighborhood Reinvestment include regional or national conferences at which NHS participants can share information and learn from the experience of other programs.

National Conference - brings together representatives of the NHS partnerships and staff from every program for a series of workshops and seminars each fall. The conferences provide both formal and informal settings at which NHS participants can share their experience and knowledge.

Leadership Conferences - regional conferences provide a forum in which board members, NHS staff and Neighborhood Reinvestment staff can exchange information on solutions they have developed to current pressing issues.

Residents' Workshops - regional workshops provide neighborhood residents the opportunity to share experiences and increase skills to maintain an effective role in the NHS partnership.

NHS programs may request other technical assistance from Neighborhood Reinvestment to meet specific needs, ranging from assisting with bookkeeping or housing rehabilitation problems to conducting workshops on the operation of loan committees or providing a temporary executive director.

An important support service provided by Neighborhood Reinvestment to NHS programs has been through the secondary market administered by Neighborhood Housing Services of America. The loans local NHSs make through their revolving loan funds are by definition "unbankable" and require terms more liberal than the private investor market accepts. To date, Neighborhood Housing Services of America has purchased $2.890 million in loans from local NHSs, with an average interest rate of 5.5% on an average term of approximately 12 years. The mean household income of the borrowers of loans purchased by NHSA to date is $9,300.

The adequacy of this secondary market resource has an importance beyond the direct dollars involved. The momentum of local NHS programs is closely tied to the dollar levels of their own loan funds with both homeowner and business confidence dependent upon what happens to the problem properties on each block.

In late 1978, the Equitable Life Assurance Society of the U.S. agreed to purchase from NHSA $1,000,000 in notes backed by the pool of NHS revolving loan fund loans which NHSA had purchased. This was a significant step in NHSA's efforts to create a secondary market for revolving loan funds. This $1,000,000 note sale made it possible for NHSA to not only assist local NHSs in maintaining the liquidity of their revolving loan funds, but to also assist mature NHS programs in meeting special loan needs in their program areas. Equitable subsequently agreed to purchase a further $2,000,000 in the NHSA collateralized securities. Both commitments were at interest rates substantially below market rates.

Many problems negatively impact the quality of life in neighborhoods and contribute to disinvestment, in addition to one-to-four family homes in disrepair, which are the primary target of the basic NHS program model. They include problems associated with vacant buildings, with absentee-owned one-to-four family buildings, as well as with small and large apartment buildings. They also include vacant lots, obsolete commercial and institutional structures and deteriorating commercial areas.

Revitalizing neighborhoods, therefore, is a multi-dimensional concern involving more than the factors addressed in the basic NHS model. Since 1974, the Urban Reinvestment Task Force has been carrying out an organized procedure aimed at broadening the spectrum of tools available to serve existing NHS neighborhoods and to enable NHS programs to serve additional, more difficult neighborhoods.

Tools which have been developed include:

Problem Properties Strategies - designed to turn specific properties which are blighting influences on blocks within NHS neighborhoods into program assets. These include strategies which:

- rehabilitate vacant homes for owner occupancy, targeting on those too blighted to be privately rehabilitated;
- enlarge home ownership opportunities for tenants and limited new entrants; and
- seek adaptive reuse of vacant public or commercial buildings.

Insurance Industry Full Partnership - a cooperative program between NHS programs and property/casualty insurers to solve insurance problems in the neighborhood. Insurance companies:

- serve on NHS boards and committees;
- contribute to the NHS operating budget; and
- strengthen the delivery system for insurance services in the neighborhood by identifying agents who will do business in the neighborhood, designing new forms of coverage needed by neighborhood residents, and training NHS staff to provide insurance counselling and referrals to agents.

Apartment Improvement Program - the Apartment Improvement Program joins the city, financial institutions, property owners, tenants and neighborhood organizations in a partnership to deal with large apartment buildings which exert a blighting influence on their neighborhoods and bring them back into profitable operation, and at the same time provide a decent living environment for the tenants. A financial analysis of the current and projected operations of a building are studied through the use of the computerized Real Estate Investment Analysis model. This model aids in the development of an individually tailored improvement plan through which each building may benefit from such activities as tenant participation, contemporary tax assessment methods, and increased investment or restructured mortgages to improve the economic viability of buildings and to finance improvements. Developed in Yonkers, New York, the Apartment Improvement Program in its first 16 months as able to "turn around" 65 apartment buildings containing 3,500 units.

Urban Lender Program - helps loan underwriters and appraisers better understand the particular social, economic and governmental elements that affect urban lending in their community.

The educational program combines technical information and formal course work with field experiences. The objective is to provide participants with both specific tools for urban appraising and underwriting and a broad understanding of their city and its housing issues. Topics include:

- Historic Preservation and Local History
- Appraisal and Reinvestment Models
- Housing Strategies and Rehabilitation Techniques
- Strategies of Economic Development
- Neighborhood Housing Services/Local Neighborhood Organizations
- Urban Lending and Economic Systems

Prior to graduation, the participants participate in a project of their selection within an urban neigborhood needing revitalization assistance.

The Urban Lender Program awards a professional certification to both participating lenders and their institutions upon completion of the course requirements. As well, the American Institute of Banking gives credit towards its urban lending designations for participation.

The Urban Lender Program becomes the basis for a solid network of communication among lenders, residents, the federal regulators, the city and the academic community. It is designed to become an ongoing locally administered resource for the lending community.

Owner-Built Housing Program - addresses the severe shortage of affordable, quality housing facing moderate income families. Based on a rural self-help model, this new program enlarges homeownership opportunity in NHS neighborhoods by families collectively building their own homes, with supervision, coordination and technical assistance provided by the NHS. The initial demonstration project in the NHS neighborhood in Oakland, California was developed in 1980. It consists of 14 families who invested 40 hours of work per week per family for a period of nearly a year. This investment has enabled each family to take title to a conventionally financed home with an estimated market value of over $80,000 by assuming a $46,000 mortgage.

Neighborhood Business Center Program - designed to address the problems of blighted business districts in NHS neighborhoods. Each Neighborhood Business Center program is a locally controlled partnership of merchants, commercial property owners, residents, lenders, and city officials in a neighborhood business district made up, typically, of 50 to 150 independent and small businesses. The partnership establishes a nonprofit corporation which:

- plans and implements a joint advertising and promotion program;
- encourages businessmen to reinvest in their own businesses and properties;
- establishes design standards, develops a long-range physical plan for the district;
- attracts new businesses and advises on additional merchandise and service lines;
- works toward the establishment of a Special Assessment District;
- operates a revolving loan fund and secures capital improvements and public services for the district.

Before developing a Neighborhood Business Center program, Neighborhood Reinvestment conducts a detailed market study of the business district to ascertain its potential and enters into a development agreement with a local entity (usually the city government) to assist in creating a Neighborhood Business Center program.

Neighborhood Reinvestment hires and manages staff to activate the advertising and promotion aspect of the Center's work and conducts an educational process designed to acquaint representatives of all segments of the partnership with operational details of the program and assist them in adapting the model to local needs. Following organization of the program, Neighborhood Reinvestment provides training and technical assistance.

Increased Rental Resources - Neighborhood Reinvestment has been identified with promoting homeownership through NHS programs. This is a valid identification and a thrust which we intend to continue pursuing; however, concern about displacement, the high building costs and economic uncertainties that are preventing new rental units being produced, and the erosion of rental units through condominium conversion has made it imperative that our interest broaden to include rental resources. Pilot efforts are now underway in a number of localities in which NHS or another neighborhood nonprofit purchases and rehabilitates vacant or absentee-owned buildings and then operates them as continuing rental resources, controlled by the neighborhood, to provide for the needs of lower income neighborhood renters.

Another approach with significant potential in addressing the rental housing needs of low and moderate income families is the Mutual Housing Association concept.

The Corporation, encouraged by the Committee on Banking, Housing and Urban Affairs, is conducting a national demonstration to test the viability of the Mutual Housing Association concept in the U.S. -- a concept broadly used in Western Europe, which, for example, has successfully produced 4.4 million dwelling units for over 10 million people in West Germany since World War II.

The Mutual Housing Association model, as Neighborhood Reinvestment is developing and testing it, offers the following advantages:

1. It addresses concerns about affordable housing for lower-to-middle income families, as we look towards an increasing rate of family formation and a growing number of families for whom the dream of home ownership is completely out of reach.

2. A private, but publically accountable, competent nonprofit local organization committed to continued annual production of new housing and substantial rehabilitation of vacant units at costs affordable to lower-to-middle income families typical of NHS neighborhoods.

3. A partnership structure, modeled after the highly successful NHS partnership, that combines the self-interests of residents and community representatives with the business and housing expertise of financial institution and City government representatives.

4. A form of tenure which conveys no property rights but is a "step up" from renting, providing many of the qualities of homeownership including the prospect of permanent occupancy, higher quality construction and maintenance, a sense of personal involvement and a voice in association policy, and protection from condominium conversion.

5. A system of capitalization that combines capital investment by resident members, capitalization grants and conventional mortgage financing to produce monthly payments at neighborhood market levels.

6. A system of continuing capital formation which enables the association to maintain and modernize existing units and develop additional units of affordable housing on an ongoing basis.

7. A professional staff responsible for development, management and maintenance. The Mutual Housing Association with several complexes of dwelling units can afford a staff of greater capacity and scope than any single apartment, condominium or cooperative complex could afford.

8. A commitment to permanent ownership by the association and hence a commitment to high quality construction and maintenance.

9. The proven capability of the Neighborhood Reinvestment Corporation in developing competent and lasting private nonprofit neighborhood organizations, as well as its proven effectiveness in providing ongoing technical assistance and monitoring to the organizations it develops. This ongoing relationship will assure public accountability and the compliance of each association with the mission of continued production and high quality maintenance.

10. A way of producing housing for spot shortage conditions, neighborhood-by-neighborhood.

11. A lower-cost alternative to previous housing subsidy programs, and a complement to potential housing allowance programs.

12. A form of nonprofit ownership which will neither require tax-deductible depreciation nor sell or syndicate such depreciation as tax shelters for others, will not utilize tax exempt bonds or take advantage of income tax credits, thus eliminating the loss of Federal tax revenues which has been associated with rental housing.

Additional program tools being developed include:

House Sharing - a program to provide additional dwelling units in underutilized single-family homes. Elderly homeowners in large, older homes in need of rehabilitation are frequently assisted by NHS programs in the conversion of a portion of their property to a rental unit. This provides a source of income for the homeowner, helping defray the cost of needed rehabilitation, as well as reducing utility costs for unutilized space. At the same time, this program provides additional dwelling units in the neighborhood with a minimal investment, thus promoting more efficient utilization of the present housing stock.

Although routinely carried out by many NHSs where permitted by local zoning, the House Sharing program is being designed as a specific programmatic tool to be utilized more broadly by NHS programs to cope with local rental housing shortages and assist elderly homeowners in remaining in their homes in the face of rehabilitation needs, rising property taxes and rising energy costs.

Neighborhood Group Homes for the Elderly - designed for elderly neighborhood residents who need an intermediate level of housing that falls between nursing home care and independent living. The group homes concept provides an opportunity for the elderly to remain in their neighborhood and live in an environment that supports their needs and is economically affordable. In addition, this program provides an opportunity to turn around large problem properties, including those that are vacant, no longer appropriate for single-family homeownership, underutilized, or structures available for adaptive reuse, such as public school buildings, warehouses, convents, etc.

The program involves:

- an NHS acquisition strategy for properties that can be developed into living units for 10-15 elderly residents, as well as providing space for common areas for group dining and social activities;

- a design and rehabilitation plan taking into consideration the particular needs of the elderly;
- construction management to coordinate acquisition, design, financing and the rehabilitation process; and
- the provision of ongoing property management, maintenance and social services.

This program offers opportunities for investment and contributions by private corporations desiring to assist their communities.

## PRIVATE SECTOR INVOLVEMENT

Neighborhood Reinvestment's work in developing and assisting Neighborhood Housing Services programs and making additional neighborhood revitalization tools available is only possible because of significant private and local contributions. The following table shows support for local NHS program activity through Fiscal Year 1981.

Support For Local NHS Program Activity Through FY 1981

| | |
|---|---|
| Contributions to developmental costs (primarily by local government) | $ 5,000,000 |
| Contributions to NHS operating budgets (primarily by financial institutions) | 32,000,000 |
| Contributions to NHS revolving loan funds (local government, Neighborhood Reinvestment Corporation, foundations, other industry) | 41,000,000 |
| Purchase of NHS loans (by Neighborhood Housing Services of America) | 3,000,000 |
| City expenditures for code inspections | 9,000,000 |
| TOTAL | $ 90,000,000 |

In addition to the contributed support for NHS operating budgets and NHS revolving loan funds, private financial institutions have made $391,000,000 worth of mortgages and home improvement loans in NHS neighborhoods.

During the past two years, the insurance industry has also become substantially involved in NHS programs. Insurance company representatives participate in local NHS partnerships and a number of companies have developed and tested new forms of coverage to address the insurance needs of urban homeowners. The NHS strategy of coordinated reinvestment block-by-block has provided companies with the environment in which they can test these coverages.

Industry-wide contributions of over $1,000,000 have enabled local NHS Insurance Industry Full Partnerships to enhance services in their neighborhoods, and special challenge grants from the St. Paul Companies and Allstate have allowed the Twin Cities and Chicago NHSs to expand their programs to additional neighborhoods.

The Allstate Insurance Company has also invested $500,000 in a subsidiary of the NHS of Chicago to rehabilitate vacant apartment buildings. In addition to the $3,000,000 purchase of secondary market securities by the Equitable Life Assurance Society of the United States already mentioned, the Prudential Insurance Company has committed $5,000,000 to a secondary market program for below market rate mortgages to facilitate Problem Properties Strategies.

Discussions are underway with life insurance companies and other corporations to make Neighborhood Housing Services programs and related revitalization strategies a vehicle for private sector participation in increasing private corporation assistance to local communities, as urged by President Reagan.

# PREPARED STATEMENT OF KENNETH GLOVER

Effective development of industry, commerce and housing in this country's communities has long been the victim of a vicious circle. On one hand, neighborhoods need public sector financing and technical assistance to develop and implement responsive and comprehensive programming. Yet, on the other hand, public sector involvement, due to its various regulatory and statutory limitations, challenges successful development efforts.

In response to this contradiction, a private sector approach was developed in 1972 by the Illinois Neighborhood Development Corporation (INDC), a regulated bank holding company. The INDC approach seeks to provide the necessities of successful neighborhood development: adequate financial resources; responsive and accountable management; simultaneous social and economic development; and continued citizen involvement. Further, this approach assumes that commercial banks have a very significant role to play as core institutions in the development process. This assumption is based upon the following characteristics of commercial banks:

1. Banks are privately owned and well-capitalized, which means that they are capable of sustaining themselves; they are not dependent on Congressional appropriations. They are profit-motivated, which means there is a built-in risk and reward system.

2. Banks are generally well-known and in spite of the community-based initiatives that led to passage of the Community Reinvestment Act of 1977, they are generally trusted and legitimate.

3. Banks have enormous capacity to be knowledgeable about the local economy. If the bankers are doing their jobs, they are talking to the residents and businesses in the community, acting on a variety of opportunities for interaction between the bankers and the people who reside and do business in that neighborhood.

4. Banks are highly-regulated. At first glance that might seem like a disadvantage. However, when you are doing development work in a banking context, you have to be both an advocate and a judge, but that is the surest way to get into trouble. One of the things that keeps you out of trouble is knowing that the examiners can walk into your bank at any time and conduct a comprehensive

surprise examination. That is an enormous incentive to use the resources you are fiduciary for in a responsible manner.

5. A bank is an ideal core development institution because it controls a pool of credit, one of the key resources for development.

But banks, standing alone, are too limited, when you consider the requirements for self-sustaining development. Banks are prohibited by law from initiating development projects. Banks also cannot invest equity capital. Banks can make loans, but they cannot own stock; they cannot own a part of a business. As a result, banks alone cannot initiate development activities or adequately apply resources to the task of development.

The INDC approach is based on the authority contained in Sec. 225.4 (a)(7) of Regulation Y of the Federal Reserve System. It is built into a bank-holding company that controls a commercial bank that is able to extend development credit to the neighborhood. (See model) The holding company also needs to create other non-bank subsidiaries to do those things required in the development process but prohibited to banks. It includes the creation of a real estate development corporation that can initiate the purchase, management, and rehabilitation of both residential and commercial properties. It further includes the creation of a minority enterprise small business investment corporation (MESBIC), that can make equity investments in businesses owned by others. And finally it requires the creation of a not-for-profit social development organization that can do job training, job placement, and various other development activities that are not, of themselves, profitable. The corporate structure and use of subsidiaries is common to most bank holding companies, except that in this case the subsidiaries are organized to conduct community development activities. Approximately 75% of the nation's banking resources are controlled by bank holding companies.

To date, a number of objectives in the neighborhood have been accomplished. We have been able to maintain the same income mix since the year we started. In 1975, the South Shore area had some 80,000 people, approximately 95% black. Today, the population is essentially the same. One third of the people have family incomes under $10,000; another third are under $20,000; and the other third are over $20,000. We have been able to maintain this economic diversity as the neighborhood has improved. We have been able to contain the crime rate, even through it is higher than the city at large. The rate of population turnover has dropped from 15% a year to 10% a year.

Several lessons have been learned from our experience. Richard Taub, a sociologist at the University of Chicago, has been tracking our activity from time the bank was purchased. He makes six general observations about the reasons for whatever success we have had:

First, the major investor, South Shore Bank, is located in the neighborhood. Second, because the bank and its affiliates are a business, the officers, owners, and managers have something more to lose than their pride if it fails. Third, the Bank is not a one shot deal. The stable and continued future flow of resources for neighborhood renewal is relatively well assured for a period of time. Both residents and businesses in the neighborhood can count upon continuing availability of funds and support. Fourth, local citizens are brought into the process in ways that are relevant to their interest and their skills, and they are able to play a role in helping to direct the flow of resources and in keeping the investors accountable for their action. Fifth, the scale of activity is small enough so that the citizens can see that they too can play a useful role in the process.

These lessons, not unique to us, can be restated in more general terms:

1. A program for neighborhood renewal must be tailored to the special circumstances of each neighborhood. Neighborhoods vary and have different needs.

2. The dollars needed for neighborhood development are big and significant, but those dollars have to be applied on a small scale so that there can be resident participation and pluralism in the development process.

3. There are a variety of tools available for neighborhood renewal. Whether we have enterprise zones or UDAG, there are public and private tools that can be combined. People who do development need incentives and mechanisms to figure out the ways to combine those tools for their specific circumstances.

4. Economic and social development must proceed simultaneously.

While the INDC model approaches neighborhood development wholly as opposed to isolating the process into housing, industrial and social components, it is important to note that each affiliate of INDC has contributed to the program identification and implementation of alternative mechanisms for sheltering low income people and for maintaining and/or upgrading existing stock for that purpose.

South Shore Bank of Chicago (Total assets: $84 million) has sought to improve the South Shore community by making real estate lending a major activity. In 1980 the Bank made $5.2 million in mortgage and rehabilitation loans. Real estate lending comprises 78% of the Bank's development loan portfolio and 42% of total loans outstanding. Multi-family mortgage and rehabilitation lending constituted 65% of 1980 real estate activity. The Bank continues to require rehabilitation as a condition of the purchase of multi-family buildings. Loans in 1980 were written either on short terms for periodic rate review or on a two-year renegotiated rate basis.

The Bank's lending activities had had a measurable impact on the South Shore housing market. Indicators of the renewed strength of this market are:

- an increase of 55% in the Bank's 1980 multi-family mortgage and rehabilitation lending over 1979 despite continued high interest rates;
- no delinquency in the Bank's multi-family loan portfolio;
- renewed activity of other lenders in financing mortgages on single family homes in South Shore;
- a decrease in the number of tax delinquent properties in the past five years;
- a doubling of single family home values since the Bank began its mortgage lending in 1973;
- South Shore's ranking among the top ten neighborhoods in number of building permits issued annually in Chicago;
- the Bank's sale of a $1.8 million participation in $2.6 million of single family mortgage loans to the Federal National Mortgage Association.

Also, the Bank succeeded in financing the purchase or rehabilitation of more than 500 units of housing in 1980. In the past three years the bank's lending programs have financed the improvement of almost 1,500 housing units, or 5% of the neighborhood's multi-family housing units.

City Lands Corporation, the bank's for-profit real estate development company approached the housing issue by initiating "the most extensive multi-family housing redevelopment in the city's history." The Parkways project, scheduled for completion in 1982, will renovate the interior and exterior of 22 large multi-family buildings in a six-block area of Parkside, a neighborhood in South Shore's northwest corner. The Parkways will create 446 units of housing for families, elderly and handicapped, as well as a community center, parks, and other amenities. Following on the successful start-up of The Parkways redevelopment, City Lands began in 1980 to option buildings and secure financing commitments for a new major housing rehabilitation project in other sections of South Shore.

The Neighborhood Institute, INDC's not-for-profit affiliate which operates programs in housing, education/training, employment, and economic development, found other approaches in housing. In 1980 TNI's Housing Center assisted 2,630 individuals and families seeking improved housing opportunities. TNI was named a delegate agency for the City of Chicago's Weatherization Program. Through the installation of storm windows and other heat retention mateials, TNI crews improved the energy efficiency of 100 low-income housing units. TNI also sponsored 19 workshops on such homeowners' and tenants' concerns as energy, taxes and rehabilitation. Finally, it obtained title to two abandoned buildings for development as cooperatives. One 22-unit building is among the first cooperative "sweat equity" demonstration projects in Chicago, financed by HUD's Multi-family Urban Homesteading Program. The second building will be developed as a limited equity cooperative in the Parkside area of South Shore.

The Neighborhood Institute also received a major grant from the Standard Oil Foundation to demonstrate the feasibility of a new approach to providing safe and attractive housing to low-income families at a fraction of the current costs. The demonstration model requires the creation of a limited equity housing cooperative. The cooperative obtains a conventional, market-rate loan from a commercial bank for approximately 70% of the total cost of acquisition and rehabilitation. Another 25% is obtained from a foundation or government funded revolving equity pool at a zero rate of interest; the remaining 5% is invested by the cooporative owner-resident. After five to seven years, as the result of inflation and/or appreciation in the market, it should be possible to refinance the property with a conventional lender, repay much of the revolving fund, and reinvest the proceeds in a subsequent similar project. Any lost revenue should be considerably less than existing government subsidies.

The critical factors embodied in this approach to housing rehabilitation and displacement prevention are the following:

1. Older multi-family buildings can be rehabilitated successfully at costs considerably lower than in government financed projects through the customized analysis of an individual building's needs by persons who are familiar with the community and who practice an entrepreneurial approach to the business of rehabilitation.

2. Responsible, low-income families will trade future capital appreciation in their personal residence for good current housing which they control at a price they can afford.

3. Future price appreciation in stable inner-city neighborhoods can be captured for the benefit of low-income residents, and substituted for the present absence of adequate equity to obtain an ownership stake in personal housing. In South Shore it is a means of

capturing price increases that result from the synergistic effect of the INDC development activity.

The Neighorhood Fund, Inc. (TNF) a SBA-licensed minority enterprise small business investment company, has recently developed programming in the housing area. Although concentrating mostly on commercial efforts, TNF has made an equity injection in a real estate development limited partnership in which the finished project will be renovated multi-family living units.

We, in South Shore, are proud of our efforts and are confident of the private sector role in the implementation of self-sustained development programming. However, our confidence in the private sector does not supplant the need for a strong, but different public sector role -- especially the Federal role.

Specifically, we feel that banks (and other financial institutions) should be more involved in the housing alternatives process. Accordingly, a series of non-subsidy (regulated marketplace advantages) or subsidy incentives should be explored and, if feasible, enacted through legislation. In terms of non-subsidy regulatory marketplace advantages, the idea of linking together the privileges extended to banks through public policy and their performance in neighborhood development should be examined. The linkage should focus on the profit motivations and competitive position of bankers.

As an example, bankers today are concerned about the competition from money market funds. They are an unregulated form of profitable deposit account business that is prohibited to banks. Bankers want authority to issue similar depository instruments that would compete with the money market funds. Debates in Congress or any place else on that kind of a question always look at the issue only from the banker's point of view. What never gets into that dialogue is how the regulatory process, either to control the money market funds or to give the banks the opportunities to issue the same kind of instrument, can be used as a device to motivate bankers to channel deposit resources toward development activity.

The whole issue of branching, both interstate and intrastate, is also a hot issue among bankers. The large banks in this country would like to have branch offices in every state of the union, but they are prohibited from doing so. In most states there are restrictions on branching: In California there is unlimited branching; in Illinois there are severe branching limitations that limit a bank to a single full-service office. Since bankers want the privilege of establishing branches, that could be part of a reward extended to banks that do a good job in development financing.

Banks would also like to do revenue bond underwriting; the same principle of privilege for performance could be applied. Another opportunity to apply the principle of public policy privilege for housing performance was lost about a year and a half ago when FDIC insurance for each depositor in every bank and savings and loan and every credit union was increased from $40,000 to $100,000. That kind of increase could have been linked to development performance. Instead, we have historically, as a society, extended those privileges to institutions by virtue of the class of institution in which they are categorized without regard to their performance in helping to achieve stated national objectives.

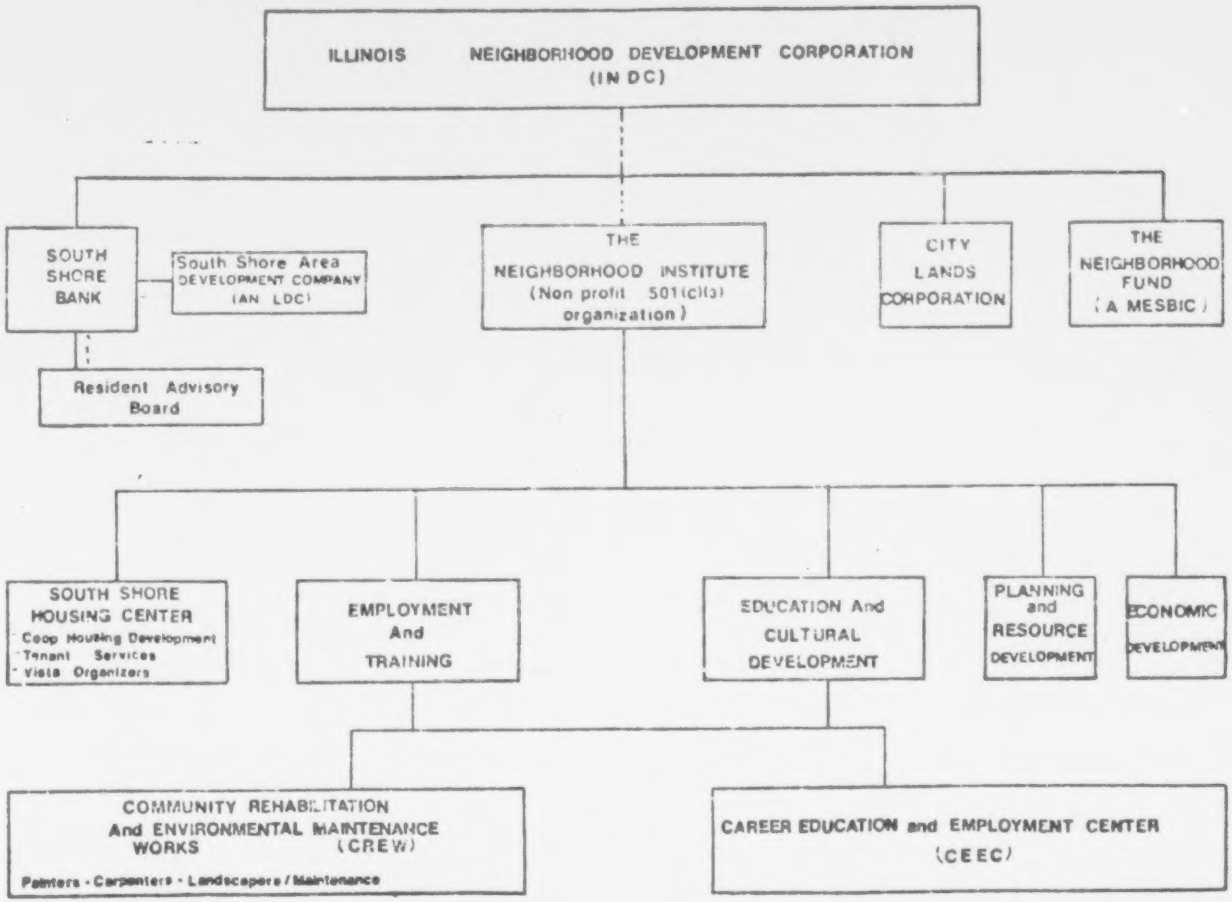
Finally, we have the business of the deposit account interest rate ceiling. We now have a rate deregulation commission that is supposed to remove all interest rate ceilings. A rate differential would be absolutely the strongest market advantage that any bank could possess. A bank able to pay one percentage point more than another bank for the same kind of deposit would have an enormous marketing advantage. Instead of the kind of tokenism that C.R.A. has produced we would see substantial investments by bankers in housing rehabilitation if they knew that they could pay higher interest rates in exchange for channeling more of their resources into non-gentrifying neighborhood development.

What are some subsidy type incentives? There are several and they all have problems. However, reserve requirements could be one such incentive. Every regulated depository offering transaction accounts -- banks, savings and loans, and credit unions -- has to, over the next 7-1/2 years, become a full member of the Federal Reserve System and maintain non-earning cash reserves there. Those reserve requirements are dormant dollars on which the bankers are not earning any income; they could be regulated to be an economic incentive for investment in development activity. Those bankers that invest more of their resources in neighborhood renewal could be allowed to maintain lower reserve balances.

A similar incentive could center on borrowing from the Federal Reserve discount window. Those banks that were doing a good job of development could be offered a lower discount rate for such borrowings. Alternatively, since this Administration thinks in terms of income tax benefits, such as the enterprise zone concept, we could look at some kind of tax incentive that would apply to banks that invest in development projects.

Lastly, we could look at C.R.A. service area performance depletion allowances so that those banks that were operating in depleted neighborhoods that were physically older, with lower-income borrowers, might be allowed a tax credit in return for financing development.

The task of rebuilding our cities, creating jobs and improving the housing stock, is complex; it has defied the nation's creative energies and investment of public resources for more than three decades. At the end of the Civil War we created the national banking system to help stabilize the economy and to efficiently employ the private savings of the nation for its economic development. Generally speaking, the system has worked well in accomplishing those objectives, but as the economy has grown in size, the major financial institutions has grown also, placing increasingly high priorities on serving increasingly large borrowers, domestic and international. Unfortunately, the neighborhoods in which people live, worship, and work are small scale places with a large mass of small scale needs. Perhaps the time now has arrived to launch a major inquiry into how we as a society can once again capture the drive, resources, and resourcefulness of the nation's private banks and apply them to the business of neighborhood housing and development.


ILLINOIS NEIGHBORHOOD DEVELOPMENT CORPORATION
(IN DC)
SOUTH SHORE BANK
South Shore Area DEVELOPMENT COMPANY (AN LDC)
Resident Advisory Board
THE NEIGHBORHOOD INSTITUTE
(Non profit 501(c)(3) organization)
CITY LANDS CORPORATION
THE NEIGHBORHOOD FUND
(A MESBIC)
SOUTH SHORE HOUSING CENTER
Coop Housing Development
Tenant Services
Vista Organizers
EMPLOYMENT And TRAINING
EDUCATION And CULTURAL DEVELOPMENT
PLANNING and RESOURCE DEVELOPMENT
ECONOMIC DEVELOPMENT
COMMUNITY REHABILITATION And ENVIRONMENTAL MAINTENANCE WORKS (CREW)
Painters - Carpenters - Landscapers / Maintenance
CAREER EDUCATION and EMPLOYMENT CENTER
(CEEC)

Senator DURENBERGER. Our next panel provides us with a local government perspective. George (Brad) Hoffman is the administrative assistant of Brooklyn Center Elderly Co-op. Brooklyn Center is a community adjacent to the Twin Cities of Minneapolis and St. Paul. It is a city with an increasing elderly population and a decline of eligible homes for young families. Rona Zevin is the housing policy director for the city of Seattle. Some years ago, this city decided that public subsidy dollars would only be used for low-income households.

Brad, I introduced you first. Are you ready to testify?

## TESTIMONY OF GEORGE B. HOFFMAN, ADMINISTRATIVE ASSISTANT, BROOKLYN CENTER ELDERLY CO-OP, BROOKLYN CENTER, MINN.; AND RONA ZEVIN, DIRECTOR FOR HOUSING POLICY, OFFICE OF THE MAYOR, SEATTLE, WASH.

Mr. HOFFMAN. Yes, Mr. Chairman.

First of all, I would like to thank you and the subcommittee for the opportunity to talk about a procedure that Brooklyn Center has used to address its housing needs. In doing so, I don't intend to suggest that our approach should set the standard for other municipalities or other agencies, but rather to point out that our problems are not unique to Brooklyn Center. The elements and the events that go into solving those problems are somewhat unique, as they would be in any other community. They really need a local touch which is tailored to those notions so that there is a solution to those problems.

In Brooklyn Center, it starts somewhat in the middle. We have two objectives in the program that we are undertaking at the moment. I will go back to the beginning a little bit.

The primary objectives that we have is to provide attractive elderly housing, and to encourage the elderly homeowner, the single-family homeowners, to move into alternative housing. Currently, the elderly in Brooklyn Center own approximately 23 percent of the single-family houses. The housing is very much underutilized. We are talking about one or two people in a 3-, 4-, or 5-bedroom home.

The second part of our program, the other objective that we had, was to make that housing available to young families who currently would find it virtually impossible to finance such housing or to acquire such housing. As kind of a tertiary effect to this whole thing, the individual requiring these homes would, in fact, be giving up rental housing and making it available to other individuals.

As it originally started, the decision was approached by the local Chamber of Commerce and by a group referred to as the Community Emergency Assistance Program (CEAP). It is a local welfare agency that deals with the initial needs of individuals before various governmental agencies can actually intercept and get involved in their problems. They deal with their immediate needs. They have jointly been aware of the need for housing for the elderly, especially because of a Metropolitan Council survey which pointed out that need. They approached the city officials with the problem. They had formed their own task force to explore various alternative methods for providing that housing. They became involved in it as a kind of a joint venture with this group.

The immediate program that they were interested in was a HUD 202 program. The task force, or a subcommittee from that task force was formed to really explore that and to see if it really would work in Brooklyn Center. Following several meetings with the local office and after doing some exploring into the program, it became abundantly clear to us that that program was not going to address the problems as we had come to know them in Brooklyn Center. So we started off looking for other solutions.

It became apparent that we were going to have to pretty much do it on our own—put together our own program. No other program would allow us the latitude to really address the kinds of programs we had—our housing problems. We came across an idea of developing approximately 120 units for elderly housing, condominium-type housing. We went to the developer with a suggestion that the city participate, in terms of acquiring the land, providing the utilities to the property, and doing the replatting—any necessary steps to make the land ready for development—and then cost that land down to a rate good for the developer. In turn, we would ask the developer to provide an incentive to an elderly couple in Brooklyn Center that quite literally—based upon an appraisal of the home less a given holding cost—would be the developer's cash offer to an elderly couple to give up their single-family home to purchase a condominium within the project.

As a second requirement, the developer was required to arrange for mortgage money at below interest rate for young families to purchase the homes of these elderly individuals. Our intent was to literally recycle a neighborhood; to provide the people with an opportunity to still live in their neighborhood; and to provide attractive housing for them. Two, it was also our intent to bring young families back into the neighborhood by creating homeownership opportunities for them. From the city's long-term perspective, in recycling these neighborhoods, it allowed us to locate young people whose incomes were not fixed, and whose physical abilities were more attuned to maintaining those properties than were many of our elderly citizens. It allowed them to hold that property and to maintain it.

We looked at 10 to 20 years down the road. We see that we do not have to literally go in razing everything in the neighborhood and reconstructing the neighborhood. The school districts' initial concerns dealt with the development of the senior citizen project, with the loss of that land for the school children. They would lose. They see this as a good compromise, because we still see young families coming into the school district.

We took that approach to a number of developers. We were somewhat surprised to find the interest that was there in taking that approach. There was a number of developers who really indicated that they would like to participate.

Following an examination of the developers who were interested, we selected one to participate. We are in the process now of negotiating a contract with those financing stipulations. At this point in time, we expect to start construction sometime in the fall of next year, probably September.

The thing that I would like to point out about this particular program is that there really wasn't any alternatives available to us at the local agency to assist us in putting this program together. We really had to use the basic tools already available to us.

There were other programs where we were able to use, for example, our community dollars to do mortgage write-downs or various other things. We have the latitude to work with it so that the project is easier and the project works.

What I would like to suggest is, concerning the Federal moneys which are available to us—whether they come through a housing block grant program or we have to simply use CDBG funds—that we be given the latitude to use those moneys. There should not be a really strict, rather documented approach like the regulations have been. One of the major problems with such regulations is, quite frankly, that we have had a hard time getting timely responses, or answers to questions about the regulations. It is all too often that we find ourselves having to wait for a region or a central office to make a determination on a particular regulation.

We would also strongly recommend that the A-95 process be used to clear such projects in the use of such Federal moneys, and that that process be the focal point of really determining what local projects are worthwhile.

The other thing we would like to recommend is that the local agencies be empowered to make those decisions on a local basis without having to compromise, without having to go to the central office for clarification of a regulation.

Senator DURENBERGER. Thank you very much.

Ms. Zevin?

Ms. ZEVIN. I want to thank you for giving me the opportunity to testify today on some of the programs and concerns of the city of Seattle. The mayor asked me to commend you and your subcommittee for taking up this very important issue. He is running for reelection and couldn't be here today.

Senator DURENBERGER. Thank you.

Ms. ZEVIN. As an introductory note, I would like to briefly tell you about Seattle and our housing problems. We are a relatively low-density city made up of about half homeowners and half renters. Housing rents in Seattle have risen at an average of 11.6 percent per year in the last 6 years—faster than any other West Coast city, and perhaps faster than any other city in the country.

Rental vacancy rates have been almost nonexistent. In a study that we did 2 years ago, we discovered that there was a very significant displacement problem, particularly with low-income people within the city. More than half of the housing units in our downtown have been demolished in the last 20 years. Our housing assistance plan estimates that 35,000 renter households, about one-third of all our renters, need some kind of housing assistance. The housing problem can be summarized very simply: We need to maintain and increase the supply of our affordable housing.

In past years, Seattle has worked aggressively to address its housing needs, particularly for low-income families, through a variety of creative programs. We have combined Federal programs, local funds and private sector participation in various configurations, to fashion programs to meet our local needs. We have discovered that some of our needs are quite unique relative to the rest of the country.

For example, Seattle's International District is an Asian ethnic, downtown neighborhood containing about 25 residential hotels. You may have heard them referred to as "single-room occupancy buildings." Over half of the buildings were closed following a serious fire in the early seventies. The city has been using a variety of tools—including Federal section 8 and public housing subsidies, UDAG, EDA, public works funds, section 312 loans, Community Development Block Grants, private funds, and more—to rehabilitate and preserve these housing units.

We have had to fight innumerable Federal restrictions along the way. Property rehabilitation standards prohibited the use of section 8 subsidies on single-room occupancy housing. Site and neighborhood standards, first, made it difficult to get Federal approval to build subsidized housing in a minority neighborhood, even though the very reason the city wanted to provide that housing was because it was a minority neighborhood. Second, once that housing was built, these regulations required that non-Asians were supposed to live in those buildings, even though they were built for the Asian population, in order to encourage racial deconcentration. There are many more instances that I could go through right now. Those are just examples of the kinds of regulations that have made it difficult to achieve some very special localized objectives.

In this particular neighborhood, the buildings are old; the cost of rehabilitation is high. None of the work we have done in that neighborhood would have been possible without a creative mix of Federal, local, and private funding.

We have also developed other innovative programs to help provide an expanded, permanent—and I emphasize that word—supply of affordable housing, as well as to address the critical short-term housing needs of our citizens. One of the most significant has been our scattered site program. We combined Federal housing subsidies, block grants, and a tax-exempt line of credit from a local bank, to purchase and construct family housing scattered throughout the city of Seattle. In my neighborhood, a public corporation is developing a scattered site, low-income cooperative for elderly people. Two nonprofit groups have sponsored self-help housing construction for families—a program that has worked only with the availability of section 235 mortgages. One of those nonprofit agencies is now sitting on a piece of land with a foundation. They have to abandon it because HUD just canceled their 235 mortgage.

The downtown business community in Seattle, including the major banks and office developers, has formed a nonprofit corporation which is converting apartments into low-income limited equity co-ops and is attempting to develop other subsidized housing projects. We have also made use of governance tools, popularized by the Stanford Research Institute as "nonservice approaches."

You asked a question earlier, Senator, about a proposal that the city of San Francisco had made.

Senator DURENBERGER. I see you have been at it for a while.

Ms. ZEVIN. Yes; we have been talking to them about this. We have an ordinance similar to the one which they mentioned in their testimony. The ordinance requires the developers to pay a fee to the city for demolishing housing if they do not replace it with other housing. The ordinance has been amended a couple of times. It used to require that low-income housing be replaced; it now allows any kind of housing to be replaced. The fees are scaled according to zoning so that downtown office developers have to pay a higher fee than small, multifamily developers in residential neighborhoods.

The object, of course, of the ordinance is twofold: The primary objective is to protect housing and prevent it from being torn down; but if the housing is torn down, the fee is designed to provide enough money to the city to replace it with other housing. It has been in effect for about 1 year. It has drastically slowed down the demolition of downtown housing.

Senator DURENBERGER. It hasn't built any housing?

Ms. ZEVIN. Until the developers find a way around it, which they are quickly finding; but it is working so far.

Also, on the nonservice side, we fund an elderly home-sharing program, which matches elderly homeowners with tenants. We have just begun similar programs for families. Hopefully, our local church council will be identifying families who will participate in the program. We have provided several hundred families and individuals with emergency shelter every night. Our housing problem is acute. There are still people who are sleeping on the streets because we cannot afford to provide as much emergency shelter as we need.

Unfortunately, most of these—it is funny that they are called nonservice approaches, because they are really service approaches—we fund out of our Community Development Block Grant. They are technically considered public services under those regulations. The recently enacted HUD legislation limits public service expenditures from Community Development Block Grants to 10 percent of that entitlement. We have been spending 30 percent of our block grant on these types of public services. We will now have to cut, by two-thirds, our programs such as the emergency shelter that we are providing.

I have tried to highlight some of the needs and some of the things we have done to try to meet them. It is difficult to divorce these from the discussion—some of which we heard earlier this afternoon—on restructuring the Federal programs.

I would like to speak very briefly on a local view of the housing voucher proposal. I urge you to look very carefully at this proposal before all of the existing Federal programs are abandoned and a new "We are going to solve a problem this way" is proposed.

I would just like to share some of our concerns about the housing voucher approach. Housing vouchers will do little, if anything, to help us preserve and develop low-income housing downtown. All of the new housing that is being built in our downtown area is condominiums. All of the existing housing is low-income rental housing. No matter how many housing vouchers you give people, they will not be able to buy new luxury condominiums with them. We are losing our downtown housing supply.

As a matter of public policy, we want a mix in the community. We cannot have it under a voucher program. Vouchers will not help us with that problem. Vouchers will not help us rebuild deteriorated single-room occupancy housing. They will not help us reuse closed school buildings for housing. They will not do much to increase the supply of affordable housing. I followed the results of the experiments in the housing allowance program. There is no evidence at all that housing vouchers do anything to increase the supply of housing.

Over the long term, vouchers will not necessarily be cheaper than new construction. HUD officials quote national statistics on the cost of housing. This year in Seattle, the annual subsidy cost of a section 8 certificate was more than the annual subsidy cost of the new unit constructed under the low rent housing program—more, not less. I think that may be the case in other cities that have high construction costs and a very tight market.

Due to a variety of market forces in our community, the kinds of limits that are likely to be placed on rents under a voucher system are going to force low-income people to be concentrated in certain neighborhoods. As much as the theory goes that vouchers will give people a choice, either 80 or 90 percent—and I don't remember the number—of our low-income people under the existing section 8 program are concentrated in two minority neighborhoods in Seattle. There are no opportunities, with the level of subsidy they get, to move into other neighborhoods.

Quickly, about bureaucracy: Vouchers will create a new bureaucracy. Instead of building housing, we will be busy inspecting and certifying housing. We will be making sure that it meets all the conditions, certifying income, and so forth.

Finally, construction programs provide a permanent resource for the community with fixed capital costs. In effect, by building and owning these units through a public or nonprofit agency, we can provide housing relatively immune to inflation. Over time, housing leased from the private sector must pay for the cost of property turnover, and for the refinancing of mortgages at higher interest rates each time that property is turned over.

I see that my time is up. I just want to very quickly tell you about one additional thing that we are doing locally. The city has requested voter approval of a general obligation bond for $48 million to construct 1,000 units of elderly housing. This is not some fancy revenue bond. This is a city tax-supported general obligation bond issue. I tell you that to impress upon you our commitment to meet the low-income housing needs of our citizens. The bond issue was on the ballot in the September primary. It received an 80-percent yes vote, which is a record approval vote in terms of percentages for a bond issue. It didn't pass only because we have a State law that requires a certain number of people to vote. It didn't get enough people to vote. We needed 30,000 additional people to vote and it would have passed.

Construction of these 1,000 units, plus the other bond issue to provide some basic infrastructure, will use up our bond capacity. Yet those 1,000 units are equivalent to the number of Federal assistance units we received in 1 year. We will not be able to substitute for Federal programs.

I'd like to make one other point quickly: We heard the suggestion that cities use their Community Development Block Grants if they want new construction or rehabilitation programs. That is very easy to say from the outside. We already spend over half of our CDBG on low-income housing programs. Next year our CDBG funds are going to decrease at least 10 percent. If Congress enacts the President's latest budget cuts, the block grant will decrease by 22 percent, not taking into account inflation. There is no way we can even maintain our current level of spending, let alone substitute local funds for the loss of Federal construction programs.

Thank you.

Senator DURENBERGER. Let me ask you how you come to all these conclusions about the voucher program. Is it based, to some degree, on the lack of housing stock in Seattle so that even if we move to a voucher program, there is not enough of a choice available? Or, have you had some actual experience with vouchers, or have you talked with some of the people who have been involved?

Ms. ZEVIN. Primarily it is based on two things: First, for a number of years, we had existing section 8 certificates available and unused, while we had a very long—several thousand people—public housing waiting list. There were no units in the private sector for people to rent at fair market rents. People were desperate to move into public housing units.

I also have followed the results of the HUD demonstration programs. We have done a lot of analysis of our programs, our problems, and what we need to do. We have convinced ourselves that supply is the answer in Seattle. We haven't seen any evidence that vouchers affect the supply of housing. It is really contrary to logic—as far as I am concerned—that a housing voucher system, which provides people with enough money to pay up to the median price, is going to encourage developers to construct new rental housing which has to be at the absolute top end of the market. Nobody is building rental housing, even for the luxury market these days, because it is not financially feasible. To expect that, because you are going to give poor people a little bit more money to pay for their housing costs, the developer is going to build expensive rental housing, just doesn't make any sense.

Senator DURENBERGER. I don't know that. I can't speak for the proponents of vouchers. From what I heard here today, I do not know that the presumption is to shift what resources we now put into construction over into vouchers automatically.

There seems to me to be a presumption that, if people are armed with the ability to make a choice in housing, there will be a market which will respond to that demand. In part, that market might continue to be subsidized. In part, that might be a market that reacts, sooner or later, to changes in tax policy and so forth.

The statement on Seattle seems to speak—maybe I am reading something into it—to downtown, whatever that might mean in Seattle. Is the problem of available rental housing stock a general problem for the whole city of Seattle?

Ms. ZEVIN. Yes.

Senator DURENBERGER. And the suburbs?

Ms. ZEVIN. Yes; the suburb communities and smaller cities in our region, as well. It is a regional problem. Most of our multifamily housing is in what we call the downtown and the inner-city ring. I just used the downtown as an example, but it is a citywide problem.

Senator DURENBERGER. Brad, what would be the impact of this voucher system we have been discussing on a community like Brooklyn Center?

Mr. HOFFMAN. I don't see that it really differs that much from the section 8 program. People want to find available rental units in Brooklyn Center, or in any of the suburbs.

Our program is administered by the Metropolitan Council. It has the option of going anywhere in the metro area, except St. Paul. The thing about vouchers is that it is not going to provide 3-, 4-, or 5-bedroom homes for families. They have the voucher, but the stock is not there. That is what is missing. We have the same situation now. Probably the most pressing need in the metropolitan area is for large-family housing, but the stock is just not available.

Senator DURENBERGER. OK. Thank you very much for your testimony. Thank you for coming the distances you have to share your thoughts with us.

[The prepared statements of Mr. Hoffman and Ms. Zevin follow:]

# Testimony
Before The
Senate Subcommittee on Intergovernmental Relations
On
# ALTERNATIVE HOUSING CONCEPTS
As
Prepared And Presented By
George B. Hoffman
Administrative Assistant
For
The City of Brooklyn Center, Minnesota

## BROOKLYN CENTER ALTERNATIVE HOUSING PROJECT SUMMARY

I. Local Goals and Objectives

- a. Provide housing alternative for Brooklyn Center's elderly residents
- b. Provide homeownership opportunities for young families

II. The Brooklyn Center Project Contemplates:

- a. Providing attractive and diverse housing alternatives for elderly homeowners who currently under-utilize their home
- b. Provide below market rate mortgage money to young families to purchase homes for the elderly

III. Benefits of the Approach

- a. Address as local, as well as an area wide, need for elderly housing
- b. Address a critical need for family housing as well as addressing the affordability of home ownership
- c. Brings school age children into the school district
- d. Provides neighborhood stability and holds in check the deterioration of aging housing stock

IV. Origins of the Project

- a. The project originated through the concern of local groups not through governmental agencies
- b. Metropolitan Council studies underlined the need for elderly housing
- c. Local government involvement came about through the invitation of such groups

V. Development of the Project

- a. A local committee was formed to pursue the possible construction of elderly housing

V. b. A subcommittee was formed to explore existing programs

VI. Committee Recommendations and Support

- a. The committee rejected existing programs because they would not address our local needs
- b. They recommended, after neighborhood meetings and surveys, private development with locally controlled financial incentives

VII. Recommendations

- a. Federal, State and local agencies need the flexibility to address problems on a local basis
- b. The use of block grant funds be allowed for mortgage assistance for first time home buyers
- c. Projects undergo an A-95 review
- d. Empower local federal agencies with the authority to make decisions based on local needs

# THE CITY OF BROOKLYN CENTER, MINNESOTA

## A LOCAL INITIATIVE TO ADDRESS ITS HOUSING NEEDS:

## THE IDEA WAS INITIATED BY LOCAL CITIZENS AND ORGANIZATIONS:

In early 1980, the Brooklyn Center Chamber of Commerce and the Community Emergency Assistance Program became concerned about the need for housing for the elderly and Handicapped Citizens in Brooklyn Center.

They were not certain how they should address the problem that was called to their attention by a survey made by the Metropolitan Council of the Twin Cities Area. Studies indicated a definite need for elderly housing opportunities in the community. The leaders of the two organizations then called a meeting with other citizens interested in elderly housing problems along with the City Officials.

## TASK FORCE COMMITTEE FORMED:

In June of 1981, a joint task force committee was formed to pursue the solution of the housing problem. The Committee was chaired by a local physician by the name of Dr. Duane Orn. Dr.Orn was past president of the Chamber of Commerce, the City's representative to the Northwest Human Service Organization and an active individual in the city affairs. The task force was made up of members from the community representing the elderly, the handicapped, religious organizations, local business and other interested parties.

A "steering" committee was formed and chaired by Mr. Phil Cohen, former Mayor of Brooklyn Center and an active individual in housing at the local, metro, State and federal level since 1968.

The committee was charged with the responsibility to explore the HUD 202 program, to recommend a consultant and to make local initial contacts on behalf of the committee.

## ORIGINAL CONCEPT WAS TO PURSUE A HUD "202" ELDERLY HOUSING PROJECT:

The idea of going that route to provide "subsidized" housing for the elderly and the handicapped was the outgrowth of the earlier work by members of the Chamber and the CEAP organization.

This idea started to lose some of its appeal when the steering committee began to review the HUD restrictions if the community went the "202" route. This will be noted later on.

Early consideration of the HUD 202 program was the result of earlier work on the part of the task force members. The 202 program was abandoned after some research into the program's requirements. Because of the agency regulations, the program could not address the local needs for elderly housing.

## LAND INVOLVED FOR THIS ELDERLY PROJECT WAS CURRENTLY ZONED FOR THE TOWNHOUSES:

The land that was being looked at as an ideal site for elderly housing is a 15 acre site on the edge of the older part of Brooklyn Center in the south east neighborhood. It has been zoned in the mid 1960's for townhouse development as part of an overall comprehensive plan. The zoning was re-affirmed in the recent planning process to update the Comprehensive Plan.

## THE SCHOOL DISTRICT (BROOKLYN CENTER NO. 286) SUPPORTED THE CURRENT ZONING USE FOR TOWNHOUSES.

Brooklyn Center School District, which is one of the smallest districts in the Twin City Metro Area (2.8 square miles) with a total enrollment of 1,036 pupils felt that the 15 acres should be used for townhouse development. This would provide approximately 150 townhouse units and about 200 to 300 school children could come out of the development.

This site for family housing was noted in a recent survey that the school district had made on the future of the district. This is one of the few parcels left for the family housing in the school district which comprises about 1/3 of Brooklyn Center. (Brooklyn Center is served by 4 school districts including Brooklyn Center District 286).

## THE "202" ELDERLY PROJECT WAS NOT LOOKED AT BY THE SCHOOL DISTRICT FAVORABLY:

In view of the needs for families with children, the school district indicated they would have some problems going along with the re-zoning for the elderly project based upon their concerns. Also, residents in the area adjoining the project felt that if the project was going to hurt the school district they would have some problems supporting the change from family housing to elderly/handicapped.

## BROOKLYN CENTER HAS AN EXCELLENT TRACK RECORD OF PROVIDING FOR THE ELDERLY AND FAMILIES:

It should be noted at this point that Brooklyn Center has been one of the leading communities in the Metropolitan Area to provide opportunities for subsidized housing for both families and the elderly in the metro area. The Metro Council has on many occasions commended the City for its efforts to provide housing for all income levels and age brackets.

## COMMITTEE CHANGES DIRECTION AWAY FROM THE "202" CONCEPT:

Given the concerns of the school district, the 202 program would work only if the units to be constructed were primarily marketed to the elderly in the area to young families, thus bringing school age children back into the district. HUD regulations, according to our local area office, would require that the units be made available to individuals outside of Brooklyn Center first. Thus all intital efforts to fill the units would be directed to residents of other communities.

Another problem would occur with the asset levels for individials selling their homes to live in the 202. Simply, they would't be eligible. By

April of 1981, the Committee, following visits to existing elderly projects, neighborhood meetings and discussions with the various agencies, concluded that it would be necessary to find some method, other than the 202 program to solve our local housing needs.

## POLICY FOR AN "ALTERNATIVE" HOUSING PROJECT WERE ADOPTED:

Based upon the information the joint task force committee had developed over the past year, the following policy issues and goals were developed:

1. That the elderly/handicapped housing project be build with private capital, with the City assisting by the use of local condemnation powers to assemble the land which was in 3 parcels, by 3 different owners.
2. That the City would further assist the development by the use of Tax Increment Financing to construct the necessary utilities and provide "write downs" if necessary to make the project both feasible and attractive.
3. That the project concept include energy efficient apartment-condos (3-4 story) townhouses/quads. The idea was to provide "alternative" living options for the elderly and handicapped on one well planned site.
4. That the units would be first offered to residents of the area who would want to sell their homes and move into more functional housing to accommodate their reduced needs for space.
5. That arrangement would be made to purchase the home from those persons so wishing to do so at a proper appraised price.
6. That the presently "under-utilized" dwellings be then made available to young familes with children to purchase and that the mortgages be made"affordable" to them.

These policies, although then regarded as "very ambitious" were felt to be goals that had to be met if the proposed project was to meet the concerns previously noted.

## POLICY ISSUES TESTED WITH A LARGE DEVELOPER:

A large developer was presented the policy issues in this form for his reaction:

a. The Developer would bring the project, and finance it.

b. The City would assist with land assembly and contain financial development costs.

c. The Developer would market the units to present single family residents in the district.

d. The Developer would arrange to purchase the homes offered for sale at the agreed on appraisal procedure.

e. The Developer, along with the City would try to arrange for "affordable mortgages" for young families.

f. The Developer would then re-sell the homes to the families.

This would then accomplish two housing needs with one construction phase:

a. Provide housing alternative options for elderly residents (55 and over)

b. Provide housing opportunities for young families

## THE RESPONSE FROM DEVELOPERS CONTACTED WAS VERY FAVORABLE:

The Developers indicated that this would be a concept that they would very much like to become involved with and felt that they had the financial capacity to respond to the policy issues and goals set forth. In addition, favorable responses were received from a total of 4 developers who responded to the question posed.

## PROJECT SITE INFORMATION:

The proposed development will provide approximately the following units:

a. 120 apartment condo units - 1 and 2 bedroom

b. 40 -50 townhouse and quad homes

## TRADE OFF FOR THE SCHOOL DISTRICT ON THIS PROJECT:

The proposed project will yield possibly no children. However, if there are at least 100 homes made available for young familes and the yield is at least 2 per home, that could provide 200 additional school children. This would come at a time when the school district enrollment has been declining for the past few years. It would help to "stabilize" the school districts enrollment in the elementary grades. This approach would be considered by the school district and its residents as a "fair trade off" which considers and addresses their needs.

## LOCATION TO FACILITIES:

The site would be located as follows: (see attached map)

1. Site.

2. Two short blocks to the Earle Brown School which presently serves Congregate Dining Meals to elderly residents in the area. Also, they have variety of Community Education programs available for elderly and handicapped persons. They indicate they could provide more if the interest is there.

3. Right next to an area park, with tennis courts, ball diamonds, skating rinks, as well as more passive recreational facilities.
4. Three blocks away from a well staffed and equipped medical clinic.
5. Four blocks away from a neighborhood shopping center-super market.
6. Three blocks via freeway walkover bridge to K-Mart and other shopping facilities, restaurants, etc.
7. Eight blocks from a regional shopping center, department stores, etc. (Brookdale Center)
8. Public transportation from downtown Minneapolis serves the site.

## AFFORDABLE MORTGAGES FOR THE SINGLE FAMILY HOMES:

In order to make the homes affordable to young persons whose incomes would have to be in the area of $25,000 to $30,000, the City and the Developer are considering the following options:

a. The Developer seeks to obtain the best mortgage rate possible under best timing of interest rate reductions.

b. The City will consider a "Mortgage Pool" using their own HRA funds as a starter. This would allow the mortages to be further written down when necessary by 1-3% interest.

   Private foundations are going to be approached to see if they would be interested in contributing to this "Mortgage Pool" as some have done to assist housing in Minneapolis and St. Paul.

   (It should be noted that the City would intend to "recapture" any assistance given from the "Mortgage Pool" at the time of sale so that it can be a revolving fund to assist the next person who may need help).

c. The State Housing Finance Agency has also expressed interest in providing some lower cost mortgages when they can issue tax exempt bonds at a reasonable interest rate in 1982.

## SUMMARY:

Our experience had indicated very clearly that Federal Housing Programs currently offered by HUD are not flexible enough to meet this communities needs. The people of Brooklyn Center that were involved in this project as well as City Officials felt that with the "tools" available they could chart their own destiny much easier.

Compliance with HUD rules and regulations are time consuming, and costly. In addition the City's problems are not addressed. Our approach has allowed us to develop a project that makes "sense" in Brooklyn Center.

RECOMMENDATIONS:

We would like to suggest the following that would allow communities to better use federal funds, if available, to meet local needs:

1. That Community Development Block Grant Funds and/or other housing assistance through possible block grants allow for the first time home buyer to use such funds for "Home Mortgage Assistance."
2. That "tax incentives" be considered for developers who would "packaged" projects like we have suggested.
3. That the projects be subject to A-95 review by the Regional Clearinghouse to assume that any federal funds would meet area wide housing needs. We cannot stress this point strongly enough, and for this reason:
    a. Brooklyn Center, as earlier noted, has been commended on several occasions for their overall housing effort in providing many housing opportunities for low income persons.
    b. There are also many communities that have not accepted this obligation desiring not only the type of housing in their community that is not affordable to most of the public today.
    c. That communities be allowed to use federal funds free of excessive regulations on projects similar to the Brooklyn Center project contingent upon then having accepted their obligation to provide housing opportunities for all persons in the area.
4. That local area officies be given the opportunity to make timely decisions without continual approval of regional and central offices. Local area offices need the latitude to make decisions based upon local needs and realities.

BIBLIOGRAPHY:

BROOKLYN CENTER CHAMBER OF COMMERCE:

Established in 1963 to serve the community by the direct involvement of the business community. Present Executive Director is Ms. Lonnie McCauley and the President is Gary Hennes.

COMMUNITY EMERGENCY ASSISTANCE PROGRAM (C.E.A.P.):

Founded in 1971, by the churches in the Brooklyn Center/Brooklyn Park area to provide emergency assistance to persons who find themselves in need of welfare type assistance, either short or long term. The CEPA organization provides the short term assistance, cash, food, clothing, shelter, etc., and assists individuals to get long term assistance.

The present Executive Director is Ed Eide, the Founding Director was Madeline Roche and the current President is Mr. Ray Adel.

The CEAP organization is located at 7231 Brooklyn Boulevard in a new building that was constructed with the help of the community, local banks, etc.

### HOUSING COMMITTEE MEETINGS:

From February 1980 to August 1981, the Committee has held approximately 12 meetings. The meetings have brought the initiative started by people representing the two organizations to the entire community as well as the City Officials. Committee Members include:

- Doctor Duane Orn
- Phillip Cohen
- Brad Hoffman
- John Kelly
- George Lucht
- Ralph McCartney
- Earl Simmons
- Don Borrell
- Janet Bush
- Arnie Foslein
- Phyllis Plummer
- Ed Eide
- Lonnie McCauley
- Ray Adel

### BRUTGER CORPORATION:

The Brutger Corporation is located in St. Cloud, Minnesota and is one of the largest developers in the area. They work in a 9 state region and have built single family, townhouses, apartments, office buildings, etc.

TESTIMONY OF

RONA ZEVIN
DIRECTOR, HOUSING POLICY
CITY OF SEATTLE

Good afternoon. I am Rona Zevin, Director of Housing Policy, with tne City of Seattle. I appreciate this opportunity to testify today on housing needs and programs in Seattle. This is an issue of great importance to the citizens in Seattle. I commend the Subcommittee for its concern and interest in this important subject.

As an introductory note, I would like to briefly tell you about Seattle. Seattle is a relatively low density city--half renters and half renters and half homeowners. Housing rents in Seattle have risen at an average of 11.6 percent per year in the last six years--faster than any other west coast city. Rental vacancy rates have been almost non-existent. In addition, a City study two years ago showed that there was a significant displacement problem. More than half of our downtown housing units have been demolished in the last 20 years. Our Housing Assistance Plan estimates that 35,000, or one-third of all rental households, need assistance. In short, Seattle's housing problem can be summarized in this way: we must maintain and increase our supply of affordable housing.

In past years, Seattle has worked aggressively to address its housing needs, particularly for low-income families, through a variety of creative programs. We have combined federal programs, local funds and private-sector participation in various configurations to fashion a package of programs that meet our local needs. We have discovered that some of our needs are quite unique relative to the rest of the country.

For example, Seattle's International District is an Asian ethnic, downtown neighborhood, containing about 40 residential (SRO) hotels. Over one-half of the buildings were closed following a serious fire in the early 70's. The City has been using a variety of tools, including federal Section 8 and public housing subsidies, UDAG, EDA public works funds, Section 312 loans, CDBG and private funds to rehabilitate and preserve these housing units. We have had to fight innumerable federal restrictions along the way: property rehabilitation standards that prohibited the use of Section 8 subsidies to rehabilitate units without bathrooms; and site and neighborhood standards which made it difficult to provide subsidized housing in an Asian neighborhood. The buildings are old, the costs of rehabilitation high. None of this would be possible without a crative mixture of federal, local and private funding.

We have also developed other innovative programs to help provide an expanded permanent supply of affordable housing, as well as to address the more critical short-term housing needs of our low-income citizens. One of the most significant has been our scattered site program, where we have combined federal housing subsidies, CDBG and a tax-exempt line of credit from a local bank to purchase and construct family housing through the City of Seattle. In my neighborhood, a public corporation is developing a scattered site, low-income housing cooperative. Two non-profit groups have sponsored self-help housing construction for families--a program that has worked only with the availability of Section 235 mortgages. The downtown business community, including major banks and office developers, has formed a non-profit corporation which is converting apartments into low-income limited equity cooperatives.

We have also made use of governance tools, popularized by the Stanford Research Institute as "non-service approaches." For example, Seattle has a local ordinance which requires that developers pay a fee for demolishing housing if they replace it with another use, such as an office building. The fees will be used to help rehabilitate and preserve low-income housing.

We fund an elderly homesharing program which matches elderly homeowners with tenants. We have just begun a similar program for families. We provide several hundred families and individuals with emergency shelter every night. Unfortunately, these programs, funded with CDBG funds, are considered public services, and Seattle will be forced to cut these programs by one-third because the new CDBG law limits public services to 10 percent of a City's grant.

I have highlighted some of our needs and what we have done to meet them. It is difficult to divorce this discussion from the debate now underway to restructure federal housing programs. Many of the proposals now under consideration would, if adopted, profoundly influence Seattle's ability to address housing needs in our community.

One such proposal calls for a system of housing vouchers. I would urge the Congress to look carefully at this proposal and others before eliminating all of the existing federal programs.

I would like to share with you some of our concerns with the housing voucher approach:

- Housing vouchers will do little to help us preserve and develop low income housing in our downtown. All new housing constructed downtown is condominiums.

- Housing vouchers will not help us rehabilitate deteriorated single-room occupancy buildings or reuse closed schools for housing

- Vouchers will do little to increase the supply of affordable rental housing

- Over the long term, vouchers will not necessarily be cheaper than new construction if they are adequately funded. This year, the annual subsidy cost of a Section 8 certificate in Seattle was more than the annual cost of a new unit constructed under the Low Rent Public Housing program.

- Due to a variety of market forces at work in our community, limits on fair market rents under a voucher system are likely to concentrate low income people in certain neighborhoods. This clearly runs counter to the federal goal of avoiding the creation of new ghettos by dispersing low income housing.

- Vouchers will just create a new bureaucracy. Instead of building housing we will be busy inspecting and certifying housing.

- Construction programs provide a permanent resource for the community with fixed capital costs. In effect, by building and owning these units through a public or non-profit agency we can provide tenants with housing which is relatively immune to inflation. Over time, housing leased from the private sector must pay for the costs of property turnover.

I would urge the Congress to move cautiously in dealing with this initiative.

We have heard the suggestion that cities should use their Community Development Block Grants if they want new construction and rehabilitation programs. Seattle is already spending half its Block Grant on housing programs; much of it is used to leverage private and federal funds. Next year our Block Grant funds will decrease ten percent, and perhaps as much as twenty two (22) percent if Congress approves the President's latest round of budget cuts. This does not even consider the effects of inflation. There is no way that we can maintain our current level of spending for housing.

In conclusion, let me tell you about our elderly housing bond issue. The City has requested voter approval of a general obligation bond issue for $48 million to construct 1000 units of housing for low income elderly persons. The bond proceeds will pay for all construction costs, and rents will be set at a level necessary to pay operating costs. The citizens committee supporting the bond issue is headed by the president of the City's largest bank. In the September primary, the bond issue received an overwhelming 80 percent yet vote, and did not pass only because of a State law that requires a minimum number of total votes for bond issues.

Construction of these 1000 units, and the rehabilitation of some basic infrastructure, will use up the City's bonding capacity. Yet 1000 units is equivalent to the number of federally subsidized units we received in one year.

Seattle is certainly willing to do our part to meet the urgent housing needs of our citizens. Over time, it is possible to develop an improved shared system of providing housing. But, as William Gorham, President of the Urban Institute, said in the forward to a recently published book Housing Vouchers for the Poor, "Neither housing vouchers nor any other single, simple program can itself be a panacea." Local government, and the non-profit and neighborhood groups we work with, must be important partners in developing the strategies to meet local needs. But their creativity and ability to innovate will be useless without adequate federal participation.

We will be pleased to work with the Subcommittee on any future issues in this area you chose to pursue.

Senator **Durenberger**. One of the most interesting things that came out of our July forum on alternatives was a lot of speech material for me on community self-help programs.

Our next panel represents the voice of those consumers who are personally faced with the issue of deteriorating neighborhoods and high rental markets.

Father William Linder was one of the original founders of such a community effort to deal with housing problems of the poor in Newark, N.J. Sheila Royster is from the Jubilee Housing project in Washington, D.C., where tenants manage and maintain a range of housing services for their community. Cushing Dolbeare, president of the National Low Income Housing Coalition, has been an active advocate—as many can testify—for low-income housing for more than 20 years.

We would appreciate it if all three of you could come forward and share with us your observations on the future of U.S. housing policy. We look forward to learning from your experiences this afternoon about how we might be able to play our role a lot better.

Unless you want to proceed in another order, you can proceed in the way I introduced you. Father Linder, you can go first.

## TESTIMONY OF REV. WILLIAM J. LINDER, NEW COMMUNITY CORP., NEWARK, N.J.; SHEILA ROYSTER, TENANT OF JUBILEE HOUSING, INC., WASHINGTON, D.C.; AND CUSHING N. DOLBEARE, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION, WASHINGTON, D.C.

Reverend **Linder**. The New Community Corp. is a nonprofit housing corporation which was founded in 1968 by the residents of Newark's central ward. Basically, the residents wanted to seek a new way for the people to determine their own destiny by making the housing, business, educational, and political decisions that govern their lives. Our organization was really born during the summer disorders of 1967. It came right out of that. By January of 1968, the group incorporated to develop housing.

The first 5 years of existence was basically a battle at the State and Federal level to change what we felt to be demands which forced people to build high rise apartments for low-income people, particularly for families. It took us about 5 years to get the first project through because of this.

Eventually, we produced 120 units of 236 housing. It is a family co-op. Actually, over the next 7 years, we have developed what is now 1,185 units of housing. The five projects that came after that were all section 8 projects. Our total mortgage is $58,322,000. We hope, within the next couple of weeks, to break ground for another 327 units at a total development cost of $23,425,000.

We have tried to develop a trust. We really are working with the suburban and business community, as well as with every political level. When we began, we realized that nonprofits are not very highly held, you know, as going to have a type of durability to see through a housing development. We managed to get a suburban community, 4,000 people, to buy little square foots of land and raise $100,000. We got Engelhard Industries to give us a $200,000 no interest loan, and then we got our first project under way. Since then, we have been working closely with the business community in Newark, to help us in the capital drives for all of the other important facilities in that area.

We picked an area which was the geographic center of our disorders in 1967. We took 45 acres and marked it out. We refused to go through the urban renewal process. We decided to acquire it piecemeal ourselves. We did this by getting the city to cooperate in assembling tax closures and tax sales. Each time we had an individual staged to do the private acquisition. We used the State condemnation powers on very selective pieces of property. For example, in one project alone, there were 151 parcels, in which 100 went through these tax sales. Concerning the other 51, 47 went through private negotiations and 4 went through State condemnation powers. At each stage we have been trying to work in people's involvement in the design process and in the planning on all of their community facilities.

Just this October 6, we dedicated a $1.8 million day care facility. It will take care of the children of working parents from the age of 2 months—it's an infant center—to 4½ months. It will take care of 180 children. That was made possible, cooperatively, through fund drives in the business communities, through $200,000 in UDAG grants, and through a $900,000 loan from the New Jersey Economic Development Authority.

In the near future, we hope to do affordable, single-family houses for people who want to buy houses in Newark. We have two now—and we hope to break ground soon—on which the Mortgage Bank of New Jersey is giving us an 8½-percent loan and for which the Campaign for Human Development of the U.S. Conference is supplying us with the construction funds.

Basically, I think as you can see, we really have tried to make use of all of the different mechanisms that are here today—more of it is contained in my statement. We plan in the future to get into more recreation space, into neighborhood shopping centers, and the renovation of a church which we bought from the archdiocese into a professional facility.

All of these projects take a great deal of cooperation on the local level. We need approvals. We need assembling of land for the tax sales. We need the State. We make use of three different authorities now in the State of New Jersey for tax-free bonds. We also need, of course, the Federal money in the sense of subsidies, whether it be section 8, or maybe the newly constituted guarantee for health facilities—you know, the guarantee for the loans. Those are the types of programs we need. Obviously, we are very concerned when these programs are being changed.

Having just recently read the first draft—I guess the preliminary draft—of the President's Commission on Housing, we are concerned, for example, about the voucher. One of the problems we have is that Newark, like Seattle, has a very old housing stock. It is decreasing at a very rapid rate. We are not replacing that stock even now.

If I were to give the people who form this new community, or who are in any of the other areas of Newark, a housing voucher to go out, find, purchase and move into housing for themselves, they could not find it. We need new construction, so we need programs that stimulate that new construction. There is no way, in that report, you can gather

100 such vouchers together to use as a leverage for new construction. There is no way they have allowed for it.

We are also concerned that they will say, "Well, OK, the answer to that is to move in and use the Community Development Block Grants; we will allow you to use that for new construction in selective areas where this is a problem." I think that is pretty vague. It is pretty general, at this point, to talk about it. My own understanding, frankly, is that the housing stock throughout the country is declining. There is a need for new construction, specifically in the areas that meet the needs of low-income people.

They are also talking, in that report, about the whole question of tax-exempt bonds and the possibility of finding a substitute way of doing it. A group like ours, and most community groups that have been into housing or into related economic and social housing developments in the last 10 years, are getting more and more sophisticated with regard to the finance mechanisms. We are making use of these State authorities, great use of them. There doesn't seem to be a very clear approach to how an alternate is going to be supplied. One of the areas which particularly—I know it's across the country because I have talked to people; it certainly is in New Jersey. A number of groups have learned to use the syndication of its housing to generate funds for public services, public buildings and support services which were not available because of the problems in getting the money.

Now you are talking about reviewing all of this and creating the tax incentives and so on. We would only suggest that those who supply housing for people most in need should receive the greatest tax incentive for investment. Like anything else, if it's on the open market, people who receive the same tax incentive for investing in housing are going to go where it is the safest, the easiest, and the cleanest approach.

That's it. Thank you.

Senator Durenberger. Thank you very much.

Ms. Royster, you are next.

Ms. Royster. Thank you very much for inviting me, Senator Durenberger. I am from Jubilee Housing. Jubilee Housing is a nonprofit organization that was incorporated in November 1973. This organization was established and committed to three objectives:

One, to demonstrate that acceptable inner-city housing can be made available at costs within the budgets of low-income families; two, to encourage and sustain the participation of tenants in the operating and management of such housing; and three, to develop a model process from this experience.

My following remarks will highlight these objectives. As a resident in one of Jubilee's buildings for the past 10 years, I would like to relate some of my past and present experiences with this building. I have worked as resident manager before and after Jubilee acquired this building. It is called the Cresthill. The days and years that preceded Jubilee were filled with uncertainty. Uncertainty in the form of suddenly being dislocated, no heat, falling plaster, trash and debris scattered throughout the building and the general unresponsiveness of the owner.

In 1977, Jubilee acquired the Cresthill. At that time there were numerous volunteer groups along with the residents who cleared away the trash and debris, repaired the heating system and painted. Most of all through both sides, due to understanding and compassion, a light began to shine for hope. The years that followed included the formation of a viable and working tenant council. In January of this year, the Cresthill renovation was completed. Renovation included new kitchens, complete electrical and plumbing work and plastering and painting. Before and during renovation all residents were kept informed concerning costs of renovation and the day-to-day operation expenses of the building. In June of this year, the residents of the Cresthill decided or knew that a rent increase was necessary in order to properly operate the building. They voted unanimously for a voluntary rent increase. Knowing also that, in fact, at that particular time the District of Columbia government, here in the rental accommodations office, was very much—I wouldn't say pleased—surprised by the action that had been taken by this particular tenant co-op. It was the first time, here in the District, that a voluntary rent increase had been passed onto their desk. It was a time of, not uproar, but a lot of uncertainty because this was a problem they had never been presented with before—that residents had gotten together and come to them to let them know that a rent increase was needed; and that it was unanimously supported.

Senator **Durenberger.** What really surprised them, I guess, was that it was unanimous.

Ms. **Royster.** Also knowing that the rent increase would not cover all the items that were not included in the renovation, a fund-raising committee was formed in order to secure funds for these items. One of the items that the residents had constantly been asking for was a simple hand railing to go on the front steps for the handicapped and elderly citizens who live in our building. Out of one of our fund-raising efforts, we were able to obtain an iron railing that was painted and placed right on the front steps for our residents.

Also, through Jubilee, there has been brought into existence a component called community management. This component is headed up by a former resident, Rosa Hatfield, who started as part-time resident manager of two Jubilee buildings that had been acquired earlier. Rosa's main duties and responsibilities are to coordinate the management duties and responsibilities of Jubilee buildings. In this way, community management also works to build a sense of community among the buildings by providing a structure to share problems, successes and efforts leading to a better quality of housing and neighborhood.

Each building has a minimum of five basic committees. These committees are finance, maintenance, admissions orientation, rules, and public spaces.

The community management coordinator oversees all management operations but much of the actual management work is done by building residents as a participation requirement for living in the building.

All of the above statements are a part of Jubilee's and the residents of the buildings commitment to keep rents low by actively participating in the management of these buildings. It also brings about a feeling of community. A feeling whereby we as residents are not sitting around wondering and worrying about the plight that we are in. We are actively taking part to turn this plight around to work for us, to work for us in a way that we have a safe, clean, affordable apartment in a neighborhood that we can live in for a long time to come.

I would like to also point out that, even today, it is not an easy task. This has come about in the last 5 years, really, in the formation of a working, viable, tenant council. So far, in the past, most of the representatives on the council have been women, mainly because they have been the ones who have stayed home and, more or less, were there to oversee the family operations. However, today, the men outnumber the women on the council. In fact, we have four men and one woman. This says that everyone is actively taking part. It's not being put or placed upon one particular member of the household. Everyone in that particular apartment building is coming forward and putting forth efforts so that we may be able to stay there, in that building, at a rent which we can all afford to pay.

Senator DURENBERGER. Thank you very much.

Ms. Dolbeare?

Ms. DOLBEARE. Thank you. Senator Durenberger. I want to also join in a chorus of appreciation to you for holding these hearings. I think that this is an extremely useful approach to the problem of how we deal with housing in this country. I hope that they will bear considerable fruit.

It seems to us that the central question that needs to be addressed in housing policy generally, as well as in alternative service delivery systems, is how to enable people—and, of course, our particular focus is on low-income people—to live in housing which they feel and regard as theirs, either because they own it as homeowners, or because they have substantial control over its operation. Also the question is, how to provide low-income people with a range of housing choices and opportunities.

I would hope that as you look at alternative delivery service systems, you will really focus on the problems of housing supply. I think there are serious unmet problems there that a voucher system cannot address, as has already been pointed out by some of the other witnesses.

One of the few things that I know on which everybody in housing agrees is that housing problems are related to income. The lower people's incomes are the more acute their housing problems are likely to be. People disagree on everything else in the housing world, but they do agree on that.

Page 2 of my statement points out some of the problems faced by low-income people. I would like to point out the displacement problem. I did a study on displacement a couple of years ago. The best I can say is that something like 1 million families a year are forced to move through circumstances beyond their control. One of the major forces of displacement now is rising housing costs. Housing costs are rising more rapidly than the capacity of low-income people to pay. A second one is the rapid conversion of the housing stock, or demolition of the older housing stock, and its replacement by luxury housing.

One thing I didn't note on my list of problems of low-income people is that it is not low-income people who receive the bulk of Federal housing assistance. I think if it were, the housing problems of low-income people would have been addressed better than they have been in the past.

There is sort of a myth in housing that, over the last 45 years, we have poured billions and billions of dollars into millions and millions of low-income housing units and thousands and thousands of projects, but none of this has worked very well. Unfortunately, the first part of that myth is probably the furtherest from the truth. We have not poured billions and billions of dollars into low-income housing. If we had, I think our programs would have worked far better.

Over the last 3 or 4 years, in analyzing HUD budgets and the tax expenditures on housing, I have been astounded by the findings. If you take the total cost of all of the housing assistance payments which have been made by HUD and by the predecessor agencies—clear back to 1937—and add up all those costs, you come to a total which is more or less at the same level—tends to be slightly less—than the cost to the Federal Government of housing-related tax expenditures in the current year.

I have contended that if we wipe the slate clean of all of our housing legislation, including the tax expenditure side of the housing legislation—simply had it disappear—and then somebody wrote down on one sheet of paper in one comprehensive bill all of the things that we had repealed, not only would it not pass the Congress, but I don't think any single Member of the Senate or the House of Representatives could have been persuaded to introduce it. What has been built up over the years is that bad.

Part of the reason that it has been built up has been because of the split in jurisdictions between the Ways and Means Committee, which handles the tax side of the things, and the Banking Committee, which handles the housing side of things. It is pleasing to see another committee which can be a middle ground and a go-between, and can take some interest in alternative delivery systems.

In my statement, I note that, although we have been providing low-income housing assistance for some 45 years now, we still are providing subsidized housing for only about 20 percent of the households in this country with incomes below the poverty level.

Rather than talk more about alternative approaches, I would like to make several observations about what we consider to be the appropriate Federal role in housing.

This starts from the premise—at least my premise—that the Federal Government can encourage and provide the framework for housing alternatives. The Federal Government could provide some demonstration programs. The Federal Government can provide seed money. The Federal Government can adopt its mortgage insurance and other housing support programs to foster innovations. But the Federal Government itself cannot enact and legislate alternative systems in providing housing that will be responsive to neighborhood needs around the country.

The first and most important Federal role, I think, needs to be to provide the necessary funds for low-income housing. If the Federal Government doesn't do it, then we are in a stage of rapid reprievement. I'm afraid there simply is no other source.

Almost all of the innovative housing approaches that have been tried at the State and local level for low-income people have depended on the presence and the availability of the Federal housing subsidies for low-income people. They have used those subsidies. They have used those tax expenditures. Without the Federal financial support, the local innovative alternative efforts simply would not be able to work for low-income people. They might work for middle-income people. They might work for upper-income people. However, the market, until fairly recently, has worked fairly well for them anyway.

Second, the Federal Government, I think, needs to provide—and needs to do it more effectively than it has in the past—certain basic protection such as the protection against housing discrimination. I note in my statement that the absence of those protections probably is the greatest single factor in the polarizing of our society over the last several decades into rich and poor, urban and suburban, and black and white. When the millions and millions of housing units were built after the end of the Second World War, we had this tremendous surge in housing supply. The people who were able to move into that housing were white people with steady jobs. Minorities were not able to move in. Others were not able to move in. That, really, was the seed of the urban crisis that we now have.

Therefore, as we consider how to relax Federal regulations, we need to do it in a way that does not sacrifice the affirmative equal opportunity and other requirements and protections which have been developed in a bipartisan way over the last several decades in order to end discrimination.

Third, the Federal Government needs to continue, I think, to assist neighborhood and community-based efforts to improve housing. I would see, as a major objective of Federal policy, the seeking of ways in which those objectives, those activities and efforts can be strengthened.

There is considerable attention that has been given in recent years over the need for capacity building from State and local governments. This has been a major activity of the Secretary's discretionary fund in the Community Development Block Grant program. Secretary Savas talked about providing Federal assistance to States as the States take over the small cities program. I'm sure they are correct about that, but I think it's even more important to provide Federal assistance to local community-based activities. There is no other central way of sharing information and experience.

Our point of general departure on housing policy is that housing is a basic human right. We should try to make Federal, State, and local programs aimed at making this right a reality in such a way as to put the control and ownership of housing in the hands of people who occupy it. I don't think anybody has the formula for doing this yet.

Much more, in my opinion, depends on the quality and the capacity of the individual people you have involved than on how you structure the program. So, one major program need, I think, is to structure the kinds of programs that will attract talented and dedicated people. Many of the members of the Coalition are involved in these kinds of activities at the neighborhood level or the city level.

I'm sure that we would look forward and be delighted to try to work with you as you develop and refine your programs or directions and recommendations.

Thank you very much.

Senator DURENBERGER. Thank you very much. I thank all of you for your willingness to be here and for sharing your views with me.

Let me give some brief dimension for the purpose of answering your questions as to why we are on the third committee. You are right in saying that, as usual, we tend to divide our policy reaction in so many different committees. It is very difficult to put all policies into one and address it to a specific human need. If you think housing is bad, income security is much worse. That just seems to be the way we do business here.

The reason we are doing it here is probably two-fold. One, because we see this as an interrelated public policy problem—one that has as much base for solution on the role that an individual or a private institution plays as the role that the government plays. All of your testimony support that fact.

The second is that, clearly, we feel very strongly about the role the consumers in a competitive marketplace should play in the delivery of public services. Our problem, of course, is deciding that, if things haven't been working too well the way we have been doing them, how are we going to do them differently. What role do we play, with both our money and our policy, so that those who can do the best for the least amount of money are empowered to accomplish that?

I can look on the testimony that we have heard here most recently. As Father Linder was talking about vouchers and block grants, and after having described the empire that he has helped build in Newark, I could say that he sounded like a developer who has found unique ways of accumulating a whole variety of public services for people. He sort of falls in the private, nonprofit category of the public housing business which Jack Lowry had laid out for us earlier.

Father Linder seems to have a good notion of what kind of standard and shelter ought to be provided people and what the amenities ought to be. So he is a little bit worried about our coming along and pulling out whatever our role might have been there. There is a lot of risk for him and for all the good that he has done, when we start moving in the direction of better income maintenance programs, vouchers or whatever so individuals can make their own choices.

That might be one way to look at what he said. By the same token, our new friend from Seattle might just be reflecting the fact that she didn't like vouchers because Seattle is so busy converting available land spaces from a nonproductive sort of use to more highly productive tax uses. Therefore, if you let individuals make some choices on these things, you might be messing up Seattle's productivity.

Neither of those two characterizations are fair to either of the individuals involved. However, they take us back to the problem which Mr. Lowry had laid out for us earlier in terms of just what our role ought to be.

You said clearly we can't do without a Federal role in housing. I think you meant it ought to be a federally collected tax being appropriated back into the actual delivery of housing—not necessarily going back to individuals but going back to provide some kind of a cushion back there.

I agree with what you have said in terms of the role that we played in getting us into this problem in the first place. I mean, we clearly have created in this country a system of savings accounts called "homes" for those who can afford it. Besides the tax expenditure side which we give everybody who can afford to buy their own homes, rather than those who can only afford to rent, the government pays your taxes for you. Your government pays the interest on borrowed money for you through the tax expenditure system.

Over on the lending side, we held down interest rates on long-term mortgages by making sure your passbooks didn't pay more than 4 percent. We did that through the Banking Committee. On the Finance Committee, we made sure that that 4 percent got taxed higher than everything else got taxed. In effect, the only thing people had, other than their savings accounts, would have been their homes.

Again you point out that that is not all the people in this country. It is only the people in this country who had the money available to make the expenditures, or who wanted to make the investment in something they could call "mine."

We have accumulated all of those problems and a lot of subsidization and public investment on top of that. Now we are trying to go back around. We want to see if, in the whole process of undoing some of this tax policy and letting the interest rates float to whatever the market may be in order to make it good to save in traditional ways, rather than to use your home as a savings device, there isn't a more appropriate role for Federal, State, and local governments and private institutions in the process.

From what I hear about you, I believe one of the neat things ought to be to get everybody involved in feeling "This is mine; whether I own a piece of it through equity ownership or not, the fact is that I have some say in the operation of it." That seems to be what comes through from the experiments with vouchers, also. I don't think that any of us feel that vouchers are the answer to the problem. They look like a copout, on our part, so that we don't have to go through any of these subsidized programs anymore.

I think the important thing we are wondering about in these hearings is what role the various governmental levels ought to be playing in this process.

Having listened to me give you this long background in terms of why it is in this particular committee, could each of you react to the realities of what changes ought to take place at the Federal level? What changes would give greater flexibility down there at the local level to nonprofits and others; and, at the same time, give the individual in need something with which to make a decision? That is a general question that I would like to propose to all three of you.

Ms. DOLBEARE. I will make a start, if I may. I think the Federal Government has a basic responsibility for assuring a decent home and a suitable living environment that we have talked about since 1949. I think that needs to be done through an entitlement in housing assistance, just as food stamps are entitlements and medicaid is an entitlement. While we still have serious disagreements about who should get that entitlement and what the level should be, I think it's been pretty well established. I haven't seen any proposal from anybody for repealing those programs entirely, for example.

We don't have that in housing for low-income people. We do have it through the tax system for higher income people. There have been estimates. Maybe Dr. Lowry gave you some. The entitlement in housing assistance would probably cost about $10 billion, in terms of everybody who has an income below the poverty level would get a housing assistance payment or a housing voucher. We heard testimony from Dr. Savas that the accumulated liability budget authority amounted to a quarter of a trillion dollars. While I was waiting, I got out my calculator and figured out what the accumulated liability is for the homeowner—tax deductions for the next 18 years from now until the year 2000. If you just take the very conservative estimate—because the Joint Committee on Taxation has revised it—if you assume it at 18 percent a year, by the year 2000, those homeowner tax deductions will have cost us $7.8 trillion.

So, on one hand, we focus on the quarter of a trillion dollars that we have already committed for low-income people. We can't afford an entitlement program that would be at about the level of one-third of the cost of homeowner deductions. That is just plain wrong.

I think the first thing you have to do is to provide a Federal commitment to provide housing assistance for low-income people. The criticisms I heard about the voucher program, I think, basically boil down to two things. One, it is too small. We are talking about HUD's budget request this year is 140,000 units: 40,000 under construction and 100,000 under vouchers. That is silly in terms of the dimension of the problem of 10 million households with incomes below the poverty level and only 3 million of them under assisted housing. One, it is too small.

Second, it is not the entire solution. It is like food stamps. Nobody expects food stamps to do anything about the problem of American agriculture and the cost of production. Voucher allowances will help people afford housing, but we still need to look at some of the kinds of supply problems that we have. They might work, do work, for middle- and upper-income people but they don't work by themselves for low-income people.

Senator DURENBERGER. Thank you.

Reverend LINDER. I think that if we are talking about limited income people moving out to housing, we are talking about a good bit of that problem—maybe not all of it, but a good bit of it has to be new stock. Any program that doesn't take into account using the leverage to produce new housing for people who are moderate- or low-income people I don't think is ever going to work. I think that is the first thing.

The second is that we ought to be looking at, certainly, involvement in homeownership. The ideal is homeownership but, unfortunately, programs like the 235 were cut out. Instead of building upon the experience of that and possibly moving out into new areas, or expanding that type of thinking, we have cut it out completely. I think that would be one way of achieving a good bit of homeownership.

Another way would be to give tax incentives in accelerated depreciation for investment, for example, like we do with a historical building. Maybe we ought to have an accelerated depreciation, in some way, for greater tax benefits for those who invest in housing, but only for housing of lower- and moderate-income. If we give it across the board, they will do exactly what happened in Seattle. We will have some very fine co-ops in the middle of Seattle which will be for incomes—costs which are far beyond anybody affording it.

Senator DURENBERGER. I take it New Communities is a nonprofit organization?

Reverend LINDER. Yes.

Senator DURENBERGER. Are there certain built-in tax incentives there that are appropriate to expend in other areas?

Reverend LINDER. What we have mostly been doing in the area of taxes is in the sense of syndicating the property. Because we are a group, we do our own management, maintenance and security. We handle everything within the community. Our reputation is such that we have no trouble attracting the dollars to purchase those properties. By becoming the managing partner in the agreement, we have all the rights of ownership. We never really lost it. Those dollars have been generated into community development in that area.

Senator DURENBERGER. I take it there were certain things you could do because you were nonprofit, that a for-profit might not have been able to do?

Reverend LINDER. Correct. For example, our access to seed money for development. The State of New Jersey presently has given us $600,000 in advance, in no-interest loans, and has given us $23 million for that next project.

Senator DURENBERGER. They wouldn't do that for a for-profit group?

Reverend LINDER. They would not do that for a profit-oriented group. Also, I think our whole movement in the community, in the sense of the social and economic work, is really reconstructing, in a city like that, a whole social fiber.

People have been dislocated. Many of the institutions which were important to their lives 20 years ago are no longer important. They have to build a whole new set of institutions. It is not just a physical building of housing; it is a building or a home that is in the community.

Senator DURENBERGER. Ms. Royster, do you have any further reactions? I appreciated your presentation. Do you have anything you want to tell us to do?

Ms. ROYSTER. Not at this point. In fact, Senator Durenberger, we have been able to do a lot of renovation work. I can't recall the person who mentioned that a cousin was a carpenter or a friend was a plumber. This is how we have been doing the work ourselves. We have been gathering the talents that we have not only within the building, but also within the existing neighborhoods. People come by and are just fascinated by what we are doing. Our local businesses give us different supplies in order to maintain and to do the work that is necessary there. This is how we have been going forth with our interests and trying to deal with the problems that confront us.

Senator DURENBERGER. Does anybody else have anything they want to add?

Ms. DOLBEARE. Senator, I would like to express a few words for support for the mutual housing concept. It seems to me that that is something which should be seriously explored, in a number of ways, to make sure of the investment.

Perhaps, for example, you could get a substantial amount of capital freed up if you had a direct Federal subsidy. A mutual housing association could get a capital grant from the Federal Government. This would represent the cost to the Federal Government of the accelerated depreciation or other tax incentives which it would cost the Federal Government if the housing was developed by a private investor.

You could take a look at the roadblocks which the Federal Housing Administration now places in the way of mutual housing associations. They don't fit the definition of co-op.

It seems to me we do need some production assistance. That production assistance could work best, however, not if it is done through the private for-profit sector. There are a lot of inefficiencies in that. Those investors are thousands of miles away. When you get down to the people in the neighborhood, you don't have that local tie. Corporations have learned how to syndicate to get some operating funds. We would be better off if we had some other ways of providing those funds, I think.

I certainly didn't mean to sound critical, if I did, about a third committee getting involved in housing. The other two can each only look at a part of the question. I think it is a tremendous step forward that we have a chairman and a committee that is interested and able to look at all aspects of the housing problem together.

Senator DURENBERGER. Thank you very much, all of you, for your presentations.

[The prepared statements of Reverend Linder, Ms. Royster, and Ms. Dolbeare, with attachments, follow:]

# THE NEW COMMUNITY CORPORATION - ITS PROFILE

PRESENTED BY REV. WILLIAM J. LINDER

## INTRODUCTION

### WHAT IS NEW COMMUNITY?

New Community Corporation (NCC) is a non-profit housing corporation which was founded in 1968 by residents of Newark's Central Ward. These residents seek to create a new community of people who will determine their own destiny by making the housing, business, educational and political decisions that govern their lives.

## I. HISTORY OF NEW COMMUNITY

The roots of New Community Corporation lie deeply within the people of Newark whose history includes the painful struggle of blacks to obtain social and economic justice. Perhaps the darkest moment of that history came in the summer of 1967 when 26 people were killed during several days of rioting. New Jersey's Commission on Civil Disorders subsequently reported that black people considered poor housing conditions to be the single largest cause of the disturbance.

The next year, a group of Central Ward residents - individuals already sensitive to the needs of the black community - founded a non-profit housing corporation, New Community. Their hope embodied more than buildings, however. They envisioned a new community of people, free to determine their own futures by making the housing, business, educational and political decisions that govern their lives. Encouragement and support came from suburban friends concerned about the welfare of their fellow human beings in the inner city. This support solidified in the formation of the New Community Foundation, an independent fund-raising group which continues to stand firmly behind New Community's plans.

The first five years of its existence were spent convincing officials of the validity of the concept of low and mid-rise housing for low-income urban families. Indeed, this concept has now become the norm for government-subsidized family housing throughout the state of New Jersey. This struggle occurred beneath the shadows of the very high-rise family structures causing many of Newark's social problems. As the report of New Jersey's Commission on Civil Disorders observed in 1968:

> *There is little grass or open space around the project grounds ... It is virtually impossible in densely populated vertical silos for parents to supervise their youngsters, for maintenance workers to keep up with their chores, or for policemen to do their job adequately.*

Low and mid-rise housing allows parents and children to enjoy a closer, healthier relationship. The high-rise senior buildings allow for security and facilities on first level for senior activities.

As of today, New Community has built and manages 1185 units of housing.

PROFILE OF NCC HOUSING

| DEVELOPMENT | NO. OF APARTMENTS | TOTAL COST |
|---|---|---|
| New Community Homes | 120 | $ 4,698,000 |
| New Community Associates | 224 | $ 8,750,000 |
| New Community Rosevile | 99 | $ 3,800,000 |
| New Community Commons | 372 | $20,650,000 |
| New Community Douglas | 135 | $ 6,175,000 |
| New Community Gardens | 235 | $14,249,000 |
| TOTALS | 1185 | $58,322,000 |

In the next three weeks New Community should break ground for 327 units for a total development cost of $23,425,000.

## II. SUBURBAN AND BUSINESS SUPPORT

The reputation of non-profits is not always such that it engenders confidence, particularly when the non-profit wants to borrow large amounts of money. It is probably best by Roger Starr:

> *One hears of few successful non-profit owners of community-based housing developments; many have started out and have failed to survive...the problem of succession when the original management has had enough of the brief glory of accomplishment.*

To offset this fear of non-profits, particularly an urban minority non-profit New Community began an extensive drive to develop business support and a wider geographic political base by reaching out to the suburbs for friends.

When New Community began to work on its first development back in 1968, money was badly needed for such initial development costs as land acquisition, legal fees and architectural design services. This money was obtained from a variety of sources.

Several of New Community's suburban friends and supporters, spearheaded by the Berkeley Heights Chapter of the New Jersey Jaycees, incorporated as New Community Foundation for the sole purpose of raising funds to support New Community's efforts. Over a two-year period (1969-1970), a vigorous door-to-door fundraising drive in Newark's suburbs collected almost $100,000 from approximately 4,000 individual donors.

Additionally, Engelhard Industries provided a substantial interest-free loan, which was repaid when New Community received a mortgage from the New Jersey Housing Finance Agency for the first development (September 1973).

Today, most of Newark's larger businesses participate through the Greater Newark Industry Capital Fund Campaign Committee in contributing to the supportive service buildings necessary to a total community. Also, the New Community Foundation is still active.

## III. THE NEW COMMUNITY PROGRAMS

The major thrust of New Community in developing housing is a forty-five acre tract south of the New Jersey College of Medicine and Dentistry. New Community intentionally did not use the urban renewal process although the buildings in the area were over 98% structurally unsound. Rather, by using tax sales, private negotiations, and a very selective use of the State's power of condemnation almost all of the 45 acres has been assembled by this time. While having a total plan for the 45 acres yet piecing the development with a number of states the disruption to area residents from relocation was minimized. New Community handles all of its own relocation.

The uniqueness of New Community stems not only from the tenant-orientation of the housing design, but also from the participation of the residents in the actual design process. Prior to the construction of New Community's first housing development, the N.J. Department of Community Affairs provided a grant which was used to fund an educational program to insturct local residents in the housing development process, especially the architectural design phase. Through a series of lectures and trips, an advisory board studied various design concepts. This board then worked closely with the architect to make sure that the design reflected the wants and needs of the community. Many of these advisory board members are now residents in the housing which they helped to design.

On October 6, 1981 we dedicated a 1.8 million dollar day care facility within the 45 acre tract. Funds to build Babyland III include a $900,000 mortgage from the First National State Bank and the N. J. Economic Development Authority, plus a $200,000 Urban Development Action Grant from the Federal

Department of Housing and Urban Development and the City of Newark.

Further, New Community was its own general contractor for the day care facility. In 1980 New Community formed a non-profit construction corporation, the Chelsea Construction Company. Chelsea enables New Community to reduce development costs while simultaneously providing jobs for local residents and business opportunities for local minority firms.

Within a month plans call for the construction of two prototype afforiable single family houses for families who want to remain in Newark but cannot find decent, affordable homes to purchase. These homes will be built on scattered vacant lots in residential neighborhoods. Financial assistance for this project has been provided by the Campaign for Human Development of the United States Catholic Conference and permanent mortgages by the New Jersey Mortgage Finance Agency.

Most non-profit housing sponsors hire outside management, maintenance and security firms to operate the developments after construction is finished. New Community has chosen instead to develop and operate its own management, maintenance and security divisions, thus providing employment and training opportunities for local residents. This unique approach has enabled New Community to contribute to the economic revitalization of Newark in addition to providing safe and comfortable living conditions for its residents. The practice of attempting to impact the many different aspects of community revitalization is characteristic of the New Community philosophy.

## IV. RELATED ORGANIZATIONS

Babyland Nursery is a non-profit organization dedicated to child development and family growth, which like New Community was founded by Newark residents and suburban friends in the aftermath of the 1967 riots. Although both corporations are separate and distinct corporate entities, they work together closely to provide needed facilities and services to struggling, inner-city residents. Babyland founded the first infant nursery in the State of New Jersey and now has over 300 infants and toddlers in its four centers.

Babyland also has a child-abuse program and a shelter for women and their children who are victims of family violence. In addition this group operates a Women's Career Development Center and a program for teenage mothers. Both groups share facilities and resources.

## V. FUTURE ACTIVITIES

### RECREATION CENTER

According to a study conducted by the U.S. Department of Interior's Bureau of Outdoor Recreation and the National Park Service, released in February, 1978, recreational services in Newark and other North Jersey cities were found to have declined drastically. Speaking of Newark, the study observed that the diversity of recreation programs are poor, or at best uneven, where the social needs are great, as in the Central Ward.

....

New Community believes that recreational facilities must be an integral part of its housing developments. Thus, New Community proposes to build a large neighborhood recreation center next to the Springfield branch of the Newark Public Library.

## NEIGHBORHOOD SHOPPING CENTER

Another pressing need for this area is shopping facilities. Residents do not have the opportunity to shop within walking distance, but must travel by bus or car to do even a little essential shopping. For this reason, we are pursuing plans to construct a commercial shopping center.

## RENOVATION OF SAINT JOSEPH'S CHURCH

New Community has purchased this National Historic landmark on West Market Street from the Archdiocese of Newark. The church will be extensively renovated to provide space for day care facilities for children, a restaurant and professional (medical) offices.

## HEALTH FACILITY

We are presently exploring the construction and operation of a health facility for the elderly which would include a medical day care unit, shelter care and extended care.

## VI. THE TOOLS OF OUR DEVELOPMENT PROGRAM

### THE PRIVATE SECTOR

Both the Newark business community and the suburban community are integral parts in the social and economic development of the Central area of Newark by New Community. The organization has obtained land write-down through donations. New Community turned the good will of both urban and suburban people into seemingly endless hours of volunteer work. If one placed price on the volunteerism, the cash equivalent would be impossible to fund. One of the leading law firms in our state generously discounts its bills for service as does one of the big eight accounting firms. Companies donate so that we might leverage these funds to produce more funds for development. In short, development must be a cooperative effort.

### THE GOVERNMENT SECTOR

As was stated, New Community does not use the urban renewal process. However, the City of Newark, in addition to local planning approvals and tax abatement, packages all the tax foreclosed land within the area for a given project and places it for bid as a single unit. This usually account for about 2/3 of the needed land acquisition.

The State of New Jersey offers tax-exempt bonds to allow New Community to finance its projects. The N.J. Housing Finance Agency provides the mortgage money for all multi-family projects. The N.J. Economic Development Authority provided half of the funds for the Day Care facility and the N.J. Mortgage Finance supplied the mortgage for the two prototype one-family houses at an interest rate affordable to moderate income families.

The Federal Government provided 236 funds for one development and Section 8 funds for the others. A #200,000 Urban Development Action Grant helped to leverage a 1.8 million dollar project.

OUR CONCERN:

1. The City of Newark has a very old, mostly wooden housing stock. Newark needs and New Community has developed new and substantially rehabilitated housing. Unless one could capture large numbers of housing vouchers it will be impossible to develop new housing and certainly would make the development of large urban areas impossible.

2. The President's Commission on Housing acknowledges that there is presently no incentive for using Community Development Block Grants for housing once this activity is made an eligible activity. We would hope that before the Section 8 program is collapsed into the community development block grant program, a viable alternative would be offered which will produce new housing for low and moderate income families in a time of depleting housing stock.

3. New Community has made use of the ability of three different State Agencies to issue tax-exempt bonds to secure funds for multi-family housing, single family house and economic development. While the dependence on the market

and its need for such bonds is obviously an insecure base for housing development, it is now the only source of mortgage funds. While the substitution of a subsidy set by Congress to insure interest levels necessary to produce moderate and low-income housing may be a worthwhile goal, it is hoped that the housing needs of the lower income people will not be overlooked when a formula for such subsidy is proposed. It is also important that a sound new plan be developed before the old approach is dropped.

4. One of the important sources of capital for economic development for New Community is the syndication of its housing. This has generated funds which has funded projects which normally would be funded by the public sector or in the absence of public funds be left undone. The ability of non-profits to work with tax incentives and for profit organizations is an essential part of the New Community development program.

**Jubilee Housing, Inc.**

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## PREPARED STATEMENT OF SHEILA ROYSTER

## "ALTERNATIVE FOR MEETING PUBLIC SERVICE NEEDS IN HOUSING"

Jubilee Housing is a non-profit organization that was incorporated in November 1973. This organization was established and commited to three objectives: (1) to demonstrate that acceptable inner-city housing can be made available at costs within the budgets of low-income families; (2) to encourage and sustain the participation of tenants in the operating and management of such housing; and (3) to develop a model process from this experience.

My following remarks will highlight these objectives. As a resident in one of Jubilee's buildings for the past ten years, I would like to relate some of my past and present experiences with this building. I worked as resident manager before and after Jubilee acquired this building. The days and years that preceeded Jubilee were filled with uncertainty. Uncertainty in the form of suddenly being dislocated, no heat, falling plaster, trash and debris scattered throughout the building and the general unresponsiveness of the owner.

In 1977, Jubilee acquired the Cresthill. There were numerous volunteer groups along with residents who cleared away the trash and debris, repaired the heating system and painted. Most of all through both sides, due to understanding and compassion a light begin to shine for hope. The years that followed included the formation of a viable and working tenant council. In January of this year, the Cresthill renovation was completed. Renovation included new kitchens, complete electrical and plumbing work and plastering and painting. Before and during renovation all residents were kept informed concerning costs of renovation and the day-to-day operation expenses of the building. In June of this year, the residents of the Cresthill decided that a rent increase was necessary in order to properly operate the building. They voted unanimously for a voluntary rent increase. Knowing also that the rent increase would not cover all the items that were not included in the renovation, a fundraising committee was formed in order to secure funds for these items. As of this date, a hand railing has been placed on the front steps for our handicapped and elderly residents to gain easy access in and out of the building.

Jubilee has brought into existence a component called Community Management. This component is headed up by a former resident, Rosa Hatfield, who started as part-time resident manager of two Jubilee builings. Community Management coordinates and supports the management duties and responsibilities of each Jubilee building. Community Management also works to build a sense of community among the buildings by providing a structure to share problems, successes and efforts leading to a better quality of housing and neighborhood.

Each building has a minimum of five basic committees that operate under the authority of the building board and implement the policies set by that building and by the Jubilee Housing Board. Each building also has a building assistant who works closely with the committees and the community management component. The five basic committees are: Finance, Maintenance, Admissions/ Orientation, Rules and Public Spaces.

The Community Management Coordinator oversees all management operations but much of the actual management work is done by building residents as a participation requirement for living in the building. Each committee member performs duties related to their committee. Also as Community Management Coordinator, Mrs. Hatfield helps each building in their self-management by assisting the building Board of Directors and committees. Periodically she meets with community management committees to help establish uniform policies within any one committee function for all buildings.

All the above statements are a part of Jubilee's and the residents of the buildings' commitment to keep rents low by actively participating in the management of these buildings. It also brings about a feeling of "community". A feeling whereby we as residents are not sitting around wondering and worrying about the plight that we are in. We are actively taking part to turn this plight around to work for us. To work for us in a way that we have a safe, clean, affordable apartment in a neighborhood that we can live in for a long time to come.

**National**
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Hon. Edward W. Brooke, *Chairperson*
Cushing N. Dolbeare, *President*

## ALTERNATIVE HOUSING DELIVERY APPROACHES FOR LOW INCOME PEOPLE

Statement of Cushing N. Dolbeare, President, National Low Income Housing Coalition, at hearing on "Alternatives for Meeting Public Service Needs in Housing," Senate Subcommittee on Intergovernmental Relations, October 19, 1981.

The National Low Income Housing Coalition is pleased to have this opportunity to testify on a subject about which we are vitally concerned: how to make the delivery systems which provide housing for low income people more responsive to their needs. This is not, as we see it, primarily a question of public versus private responsibility. Rather, the central questions are how to enable low income people to live in housing which is "theirs" either because they own it or because they have substantial control over its operation and how to provide low income people with a range of housing choices or opportunities.

## THE NATIONAL LOW INCOME HOUSING COALITION

The National Low Income Housing Coalition began in 1974 (as the Ad Hoc Low Income Housing Coalition) to bring together individuals and organizations concerned with the housing problems of low income people. Our purpose, in the words of our charter, is "to carry out a program of education, organization, and advocacy designed to provide decent housing, suitable environments, adequate neighborhoods, and freedom of housing choice for low income people." We are concerned with all people for whom lack of decent housing at costs they can afford is a reality. We focus on the most acute housing needs -- those of very low income people. All of our members support this broad purpose, although neither individuals nor organizations are bound by our specific positions on legislation or other matters.

Our membership, though small, is active and diverse. Our members live in all parts of the country. They include tenants, church groups, labor unions, civil rights groups, low income organizations; public, nonprofit and for-profit housing developers and managers; neighborhood organizations; and a host of others. (A list of our Board of Directors is included in the attachments to this testimony.)

## WHAT IS "THE LOW INCOME HOUSING PROBLEM?"

Today, as public attention is focussed on the impact of high interest rates, low housing starts, and the difficulties faced by first-time home buyers, it is well to remember that the most critical housing problems of all are those faced by low income people.

> It is low income people, almost exclusively, who must pay over half their income for shelter.
>
> It is low income people who live in substandard housing, often housing which is a danger to health and safety
>
> It is low income people whose utilities are being cut off and who are finding that the cost of energy has become so high they must go without heat.
>
> It is low income people who are being squeezed out by neighborhood upgrading, often with no place to go but a less adequate unit in a strange neighborhood at higher cost.
>
> It is low income people who are unable to become homeowners because, with one small exception (the FmHA 504 program) federal low income programs provide help only to renters. Low income people are thus deprived both of the security of knowing that they will not be evicted and the financial cushion which equity in a home helps provide.
>
> Not least, it is low income people who are bearing the brunt of most of the cuts that have been made in federal programs, and for whom even deeper cuts are now being proposed.

## WHO IS HELPED BY FEDERAL HOUSING EXPENDITURES?

Somehow, a myth has grown up that over the past 45 years the federal government has poured billions of dollars into housing assistance programs for low income people and that most of those billions have gone into housing programs that didn't work, won't work, and can't be made to work.

The truth is very different. We have spent relatively little for housing. By and large, our housing programs have worked well, and we know quite a lot about how to make them work better. There are, alas, many individual projects which have been failures. These failures have generally been caused by insufficient subsidies to bridge the gap between what low income people can pay and the cost of providing decent housing. Their impact is compounded by their visibility: housing successes are generally invisible; the failures are all too apparent.

All of the federal low and moderate income housing programs of the past 45 years, put together, now account for about four million assisted units -- in round numbers, three million assisted by the Department of Housing and Urban Development (HUD), and another million or so through the Farmers Home Administration (FmHA). This is about 5% of the total housing stock. It is roughly what the private sector produces in two good years, back to back.

This sorry record means that the housing needs of low income people are not being met and there is no prospect, in the near future, that they will be met. In 1979, there were, according to the Census Bureau, some 9.5 million households with incomes below the poverty level ($7400 for a family of four). Another 4.2 million households had incomes between 100% and 125% of the poverty level. There are about 20 million households with incomes below 50% of median -- the definition of "very low income" used for most housing programs.

Looking only at renters, there were 5.2 million households with incomes below the poverty level, and another 2.0 million households between 100% and 125% of poverty. Only 21.7% of these 7.3 million households lived in subsidized housing. The rest were forced to cope without housing assistance. Meanwhile, more than half of the 2.5 million federally subsidized rental units were occupied by people with incomes above the poverty level. Unlike public assistance, Medicaid, or food stamps, housing assistance for low income people is not an entitlement. It should be.

Compared either with federal spending for other programs for low income people or with federal housing expenditures for middle and upper income people, federal spending for low income housing has not been substantial. Even though they have been growing, federal outlays for low income housing have always been less than 1% of total annual outlays.

The major housing expenditures of the federal government are indirect, made through the tax provisions of the Internal Revenue Code. These expenditures accrue, not to low income people, who have the greatest housing needs, but to middle and upper income people. Indeed, all of HUD's housing assistance outlays, under all HUD low and moderate income programs since they began in 1937, have cost the federal government less than Treasury estimates of the cost of housing-related tax expenditures this year alone.

## WHAT THE FEDERAL ROLE SHOULD BE

While a variety of approaches to alternative housing delivery systems are already under way, the federal government has a basic role in providing housing assistance . Its abandonment would jeopardize both the housing conditions of low income people and many promising efforts at creating more responsive delivery systems.

First, and most important both in the past and for the foreseeable future, is to provide funds for low income housing. The varied approaches to meeting housing needs developed at the state and local level in recent years have one thing in common: they are wholly or in substantial part dependent on the federal government for funds to make them viable. These sources of funds include both direct subsidies, under such programs as Section 8 and its predecessors, and tax expenditures, including tax-exempt financing and accelerated depreciation and other incentives for producing rental housing.

It is apparent that the form of federal housing assistance will be changed. But it is vital that the level of federal commitment to low income housing be expanded and that the inequitable pattern of federal housing expenditures, including tax expenditures, be rectified. If this is done, we believe that the total federal cost of housing can be reduced; simultaneously, the critical housing needs that face low income people, and others now unable to obtain decent housing, can be met

Second, the federal government should provide basic protections, such as those against housing discrimination. These, though admittedly inadequate, are essential. If housing programs are to be decentralized without jeopardizing the rights of minorities and others who are traditionally the victims of discrimination, this federal role must be strengthened.

The absence of strong federal fair housing requirements during the decades of rapid suburban development which followed World War II was in large part responsible for the continuing divisions in our society between black and white, rich and poor, and, indirectly, for much of the complex of problems we refer to as "the urban crisis." For close to two decades, housing costs and practices were such that almost any white worker with a regular job could obtain financing, purchase a new home, and move to the suburbs. Blacks and other minorities could not. Nor could those who for whatever reason could not work steadily. We have not yet overcome the consequences of these practices.

It is essential that present efforts to relax federal regulations and controls not sacrifice the affirmative equal opportunity requirements which have been developed, with bipartisan involvement and support, in order to overcome endemic discrimination in housing and other fields.

Third, the federal government should continue to assist neighborhood and community-based efforts to improve housing. Federal funds, generally in small amounts, have been key to many successful community-based efforts. Federal technical assistance has been essential in helping to develop the knowledge and capacity to carry out housing improvement efforts. We believe it is even more important to have federal assistance for these capacity-building efforts than it is to provide such assistance to state and local governments.

## THE NEED FOR CHANGE

The National Low Income Housing Coalition is convinced that major changes in priorities and programs are required to deal with low income housing problems.

Our point of departure is that housing is a basic human right. Federal, state, and local housing programs should be aimed at making this right a reality for every person. Ideally, the control and/or ownership of housing should be in the hands of the people who occupy it. Housing programs should reflect this. They should be decentralized where possible and made accountable to consumer, tenant, neighborhood and community needs and preferences. Their foremost objective should be to meet human and neighborhood concerns. In doing this, they should respect and be responsive to the special needs and values of different cultures. This requires a restructuring of our present approaches, under which housing is all too often treated as a speculative commodity and a prime concern in program design and operation has been to attract private, for-profit investors.

The effort to restructure housing programs more responsively will not be a simple task -- in part because of the complexity of present public and private housing delivery systems, in part because it is often the people involved who make the difference between success and failure. Dedicated, capable people can make even very inadequate housing programs work successfully, while uncaring and incompetent people can botch even the best approaches.

One of the major challenges in designing housing delivery systems is to develop capacity and build in responsiveness. Approaches to doing this over the years have included requiring citizen participation in housing and community development activities, obtaining tenant participation in housing management and on the boards of housing authorities and other institutions owning and operating housing, and broadening housing ownership. These efforts can and should be built on in developing alternative mechanisms for delivering housing services.

## SUPPORTING ALTERNATIVE APPROACHES

As new approaches to federal housing assistance are considered, we urge that one major criterion be their responsiveness to people, in their families and in their neighborhoods. This will require, except for single family home ownership, new patterns of ownership, control, and management. Federal housing activities should be designed to encourage and assist unconventional or nontraditional approaches to housing. These should include mutual housing associations, housing cooperatives, home-sharing and "alternative" housing, as well as more traditional forms of home ownership, particularly for low income families.

Many of our members are now involved in such efforts. They have demonstrated their capacity and determination and they have achieved some significant successes, often against overwhelming odds. Neither public programs nor the structure of private financing and ownership of multifamily housing is designed for, or even capable of, meeting their needs.

We appreciate the efforts of this committee to explore the critical issues raised by the need for alternative delivery mechanisms. We, and our members, will be happy to work with you and others in developing them.

Senator **Durenberger**. The hearing is adjourned.

[Whereupon, at 5 p.m., the subcommittee adjourned subject to the call of the Chair.]

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